



鄭州銀行股份有限公司 BANK OF ZHENGZHOU CO., LTD.

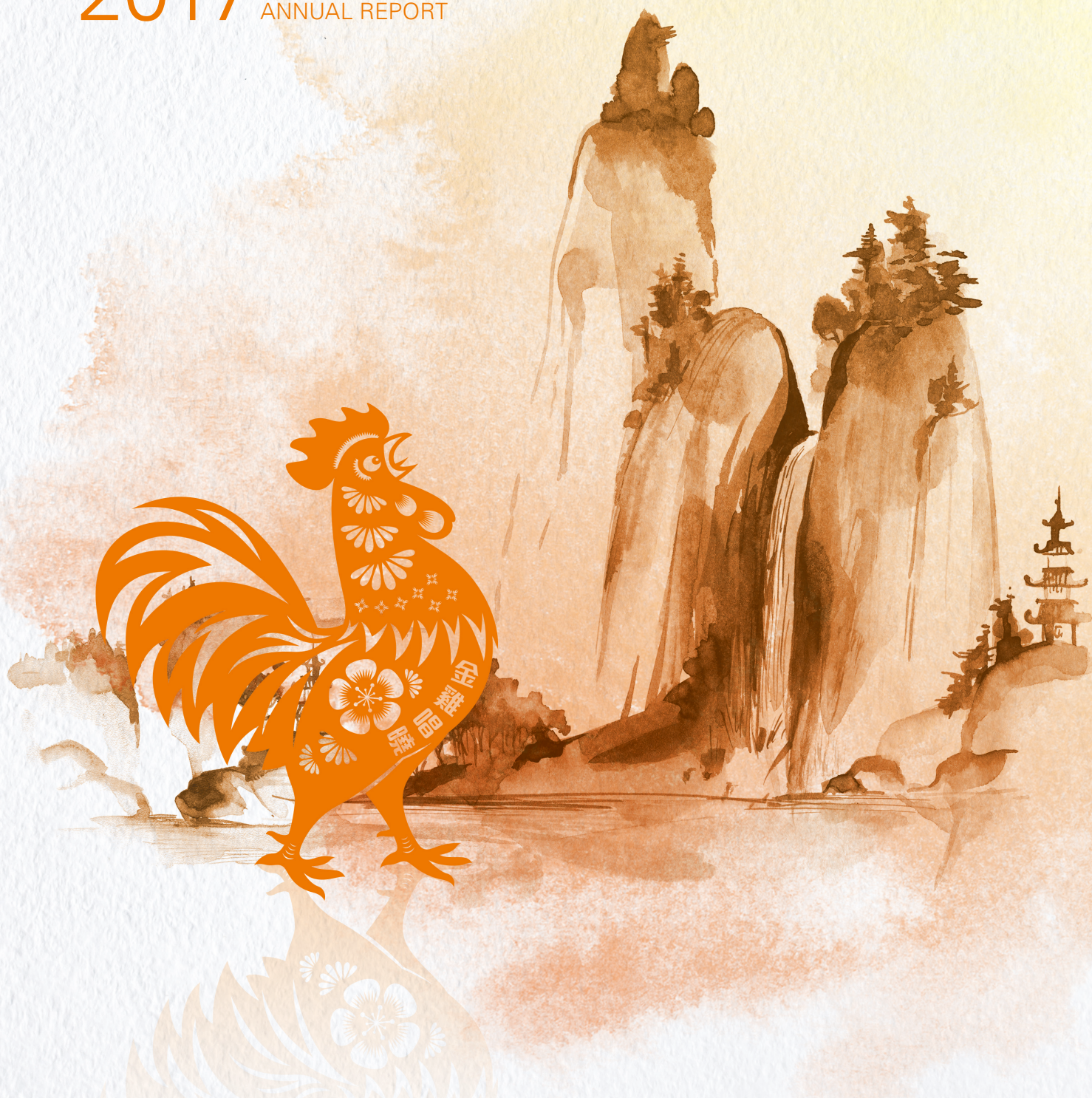
(於中華人民共和國註冊成立的股份有限公司)

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

股份代號 Stock Code: 6196

優先股股份代號 Preference Shares Stock Code: 4613

2017 年度報告 ANNUAL REPORT





This annual report is printed on
environment-friendly paper

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*

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

CHAPTER I CORPORATE INFORMATION

1 BASIC INFORMATION

Legal name in Chinese:	鄭州銀行股份有限公司* (Abbreviation: 鄭州銀行)
Legal name in English:	Bank of Zhengzhou Co., Ltd.* (Abbreviation: ZHENGZHOU BANK)
Legal representative:	Mr. WANG Tianyu
Authorised representatives:	Mr. WANG Tianyu, Mr. FU Chunqiao
Board secretary:	Mr. FU Chunqiao
Joint company secretaries:	Mr. FU Chunqiao, Ms. LEUNG Wing Han Sharon
Stock exchange on which H Shares and Offshore Preference Shares are listed:	Hong Kong Stock Exchange
Stock abbreviation:	BANK OF ZHENGZHOU
H Shares stock code:	6196
Offshore Preference Shares stock code:	4613
Unified Social Credit Code:	914100001699995779
Financial licence number:	B1036H241010001
Registered address and office address:	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China
Principal place of business in Hong Kong:	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Contact address:	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China
Tel:	+86-371-6700 9199
Fax :	+86-371-6700 9898
E-mail:	ir@zzbank.cn
Website:	www.zzbank.cn
Auditor:	KPMG
PRC legal advisor:	King & Wood Mallesons (Beijing)
Hong Kong legal advisor:	King & Wood Mallesons
H Share Registrar:	Computershare Hong Kong Investor Services Limited
Trustee agency for Domestic Shares:	China Securities Depository and Clearing Corporation Limited

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

CHAPTER I CORPORATE INFORMATION (Continued)

2 COMPANY PROFILE

Bank of Zhengzhou is a regional joint stock commercial bank incorporated in November 1996 upon the approval by the PBoC, based on 48 city credit cooperatives in Zhengzhou City. The Bank was renamed as Zhengzhou Commercial Bank Co., Ltd. in February 2000 and Bank of Zhengzhou Co., Ltd. in December 2009. The Bank was listed on the main board of the Hong Kong Stock Exchange in December 2015, becoming the first listed city commercial bank in Henan Province and the tenth in China. Under its market positioning strategy of “commerce and logistics bank, financing expert for small and medium enterprises and boutique banking for residents”, Bank of Zhengzhou has long been focusing on the area of small and micro enterprises, serving the real economy and adhering to the development path with uniqueness and differentiation with the value proposition of “being a good financial service partner of small and medium-sized enterprises (“**SME**”)” and the brand idea of “serving with the heart”, leading to consistent historic breakthroughs in each of its lines of business and a significant enhancement of its competitive edge and comprehensive strength. Currently, the Bank has already established Jiuding Financial Leasing Company (九鼎金融租賃公司) and 6 county banks at Zhongmu, Xinmi, Yanlin, Fugou, Queshan and Xunxian as well as acquired Xinzheng Jingu County Bank (新鄭金穀村鎮銀行) which was renamed as Xinzheng Zhengyin County Bank and its comprehensive business operation has proceeded steadily.

As at 31 December 2017, the Bank had 4,171 employees and 166 institutions for conducting external business, comprised of 12 branches, 153 sub-branches (including the operation division of the headquarters) and one specialized section. With its scale of assets amounting to RMB435,828 million, balance of deposits amounting to RMB255,407 million, balance of loans amounting to RMB124,456 million and its capital adequacy ratio of 13.53%, non-performing loan (“**NPL**”) ratio of 1.50% and allowance to NPL ratio of 207.75%, the Bank has met all regulatory requirements in respect of major indicators.

The Bank’s operating and management ability continues to improve, receiving wide recognition from various sectors of the community. In the list of the “Top 1,000 World Banks 2017”, the Bank ranked 322nd on Tier-one capital, up 16 places from last year. On the ranking of “PRC Commercial Banks in respect of Competitiveness” published by *The Chinese Banker*, the Bank ranked 2nd for being the “Most Competitive Bank among Commercial Banks with Asset Scale of over RMB300 billion” and received the “Best Branded City Commercial Bank” award. According to the latest “Top 40 Value-Creating Banks in China” issued by McKinsey & Company, the Bank ranked second among other city commercial banks in terms of economic profit. In the 2017 evaluation results of “GYROSCOPE Evaluation System of the China Banking Association”, the Bank ranked fourth among the city commercial banks in terms of comprehensive evaluation. The Bank received an award for being the “Best Investment Value Award for Listed Companies” once again in the “China Securities Golden Bauhinia Awards” in 2017.

CHAPTER I CORPORATE INFORMATION (Continued)

3 MAJOR AWARDS IN 2017

In June 2017, the Bank received three awards at the “2017 China Financial Innovation Forum and Financial Innovation Award Ceremony” organized by “*The Chinese Banker*”, namely the “Best Financial Innovation” award, the “Top Ten Financial Product Innovation” award (retail business) and the “Top Ten Internet Finance Innovation” award.

In July 2017, the Bank ranked 322nd on Tier-one capital in the list of “Top 1,000 World Banks 2017” published by “*The Banker*”, up 16 places from last year.

In September 2017, the Bank ranked 2nd for being the “Most Competitive Bank among City Commercial Banks with Asset Scale of over RMB300 billion” on the ranking of “PRC Commercial Banks in respect of Competitiveness” for 2017 published by “*The Chinese Banker*” and received the “Best Branded City Commercial Bank” award.

In November 2017, the Bank ranked second among other city commercial banks in terms of economic profit according to the “Top 40 Value-Creating Banks in China” issued by McKinsey & Company.

In November 2017, the Bank received an award for being the “Best Investment Value Award for Listed Companies” once again in the “China Securities Golden Bauhinia Awards” co-organised by Ta Kung Pao and other institutions.

In December 2017, in the 2017 evaluation results of “GYROSCOPE Evaluation System of China Banking Association”, the Bank ranked fourth among the city commercial banks in terms of comprehensive evaluation, up 12 places year-on-year.

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS

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

In respect of the financial statements of the Bank prepared under the PRC GAAP (China Accounting Standards) and IFRS, there is no difference between the net profit attributable to shareholders for the year ended December 31, 2017 and net profit attributable to shareholders as at the end of the Reporting Period.

		For the year ended December 31,				
		Year-on-year change between 2017 and 2016				
	2017	2016		2015	2014	2013
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Operating Results			Rate of change (%)			
Net interest income	8,106	8,300	(2.34)	6,906	5,284	4,102
Net fee and commission income	1,865	1,215	53.50	713	348	162
Operating income	10,213	9,981	2.32	7,861	5,505	4,257
Operating expenses	(2,752)	(2,435)	13.02	(2,252)	(1,842)	(1,386)
Provision of impairment losses on assets	(1,957)	(2,346)	(16.58)	(1,298)	(497)	(400)
Profit before taxation	5,548	5,257	5.54	4,362	3,203	2,507
Net profit	4,334	4,045	7.14	3,356	2,463	1,902
Net profit attributable to shareholders of the Bank	4,280	3,999	7.03	3,357	2,463	1,902
Calculated on a per share basis (RMB)			Rate of change (%)			
Net assets per share attributable to shareholders of the Bank	4.58	4.00	14.50	3.46	2.89	2.42
Earnings per share	0.80	0.75	6.67	0.85	0.62	0.48
Profitability Indicators (%)			Change			
Return on average total assets ⁽¹⁾	1.08	1.28	(0.20)	1.43	1.39	1.50
Return on average equity ⁽²⁾	18.74	20.46	(1.72)	22.99	23.52	22.10
Net interest spread ⁽³⁾	1.94	2.52	(0.58)	2.95	3.07	3.30
Net interest margin ⁽⁴⁾	2.08	2.69	(0.61)	3.12	3.31	3.50
Net fee and commission income to operating income	18.26	12.17	6.09	9.07	6.32	3.81
Cost-to-income ratio ⁽⁵⁾	26.18	22.26	3.92	23.27	27.72	27.06

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

		For the year ended December 31,				
		Year-on- year change between 2017 and 2016				
	2017	2016		2015	2014	2013
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Capital adequacy ratio indicators⁽⁶⁾ (%)		Change				
Calculated based on the "Administrative Measures for the Capital of Commercial Banks"						
Core Tier-one capital adequacy ratio	7.93	8.79	(0.86)	10.09	8.66	10.28
Tier-one capital adequacy ratio	10.49	8.80	1.69	10.09	8.66	10.28
Capital adequacy ratio	13.53	11.76	1.77	12.20	11.12	12.08
Calculated based on the "Administrative Measures for Capital Adequacy Ratios of Commercial Banks"						
Core capital adequacy ratio	N/A	N/A	N/A	N/A	N/A	N/A
Capital adequacy ratio	N/A	N/A	N/A	N/A	N/A	N/A
Total equity to total assets	7.67	5.97	1.70	6.71	5.58	6.39
Asset quality indicators (%)						
Non-performing loan ratio ⁽⁷⁾	1.50	1.31	0.19	1.10	0.75	0.53
Allowance to non-performing loans ⁽⁸⁾	207.75	237.38	(29.63)	258.55	301.66	425.54
Allowance to total loans ⁽⁹⁾	3.11	3.11	–	2.85	2.26	2.24
Other indicator (%)						
Loan-to-deposit ratio	50.29	51.34	(1.05)	55.73	58.83	61.65
Scale indicators						
Total assets	435,828	366,148	19.03	265,623	204,289	149,334
Of which: Net loans and advances to customers	124,456	107,633	15.63	91,604	76,226	61,536
Total liabilities	402,388	344,287	16.88	247,799	192,884	139,798
Of which: Deposits from customers	255,407	216,390	18.03	169,195	132,561	102,097
Share capital	5,322	5,322	–	5,142	3,942	3,942
Equity attributable to shareholders of the Bank	32,207	21,296	51.23	17,795	11,405	9,536
Non-controlling interests	1,233	565	118.23	29	–	–
Total equity	33,440	21,861	52.97	17,824	11,405	9,536

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

Notes:

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

CHAPTER III CHAIRMAN'S STATEMENT

In 2017, China continued to carry out supply-side reform and its economy took on a healthy development tendency with steady progress and rising momentum. Meanwhile, the banking industry was going through an unprecedented change under continuously intensifying financial regulations, ongoing development of financial technology and further accelerating interest rate liberalization. In the face of both opportunities and challenges in the environment for doing business, the Board, under the great support of the Shareholders, made concerted efforts with the entire crew of the Bank and upheld the basic law-abiding and compliance concept to constantly improve corporate governance, reinforce strategic guidance, promote the driving effect of innovation and improve risk management. As a result, there arose a favorable momentum in the transformation and development.

Steady improvement of operating performance. In 2017, the Bank accomplished all its operational goals to a satisfactory extent with concerted efforts and challenging spirit in spite of the severe challenges such as the economic downturn, stringent regulations and uptight situation. In 2017, the Bank recorded a net profit of RMB4,334 million, representing a year-on-year increase of RMB289 million or 7.14% and a net profit attributable to the Shareholders of the Bank of RMB4,280 million, representing a year-on-year increase of RMB281 million or 7.03%. As at the end of 2017, the Bank's scale of assets increased by RMB69,680 million or 19.03% to RMB435,828 million from the beginning of the year; balance of deposits increased by RMB39,017 million or 18.03% to RMB255,407 million from the beginning of the year; loan balance rose by RMB16,823 million or 15.63% to RMB124,456 million from the beginning of the year. The scale of assets, scale of deposits and net profit as well as other operating indicators continued to rise in terms of ranking among city commercial banks in China. As at the end of 2017, the Bank registered a NPL ratio of 1.50%, a capital adequacy ratio of 13.53% and an allowance to NPL ratio of 207.75%, all in compliance with the requirements on regulatory indicators.

Ongoing enhancement of strategic support. In 2017, major tasks of the Bank were carried forward steadily. The Bank had been in the update period for advance disclosure of the prospectus in respect of its A Share offering and was authorized to cosponsor the 2018 Nationwide Annual Conference of the City Commercial Banks (2018年全國城商行年會) in Zhengzhou. The Bank further expanded its fund replenishing channels and successfully issued the US\$1,191 million Offshore Preference Shares, which was the first case among legal person banking institutions in Henan Province and the third among domestic city commercial banks. In addition, it successfully issued the tier II capital bonds with a principal of RMB2 billion and the green financial bonds with an amount of RMB3 billion. Moreover, the Bank managed to secure its business qualifications for engagement in fundamental financial derivatives, interest rate swaps in the China Interbank market, China Interbank FX Market Derivatives Membership and medium-term lending facilities, thus further replenishing its business qualifications. Meanwhile, it continued to maintain its status as a Class A dealer for open market operations and was admitted to the book-entry government bond underwriting syndicates as one of the 2018 – 2020 Class B members. Besides, the Bank further optimized its network layout by successfully opening the Zhumadian Branch, Kaifeng Branch and two county banks in Queshan and Xun County. Thereafter, the Bank had a total of 12 branches in Henan Province and 7 county banks under its management.

CHAPTER III CHAIRMAN'S STATEMENT (Continued)

Rising up again in respect of market ranking. In 2017, the Bank ranked 322nd in the Top 1,000 World Banks, 16 places higher compared to the previous year; was “the Second Most Competitive Bank among City Commercial Banks with Scale of Assets of over RMB300 billion” on the Ranking of “PRC Commercial Banks in respect of Competitiveness”; ranked the fourth among the city commercial banks in terms of comprehensive evaluation according to the “GYROSCOPE Evaluation System of the China Banking Association”, 12 places ahead of that in the previous year; ranked second among other city commercial banks in terms of economic profit according to the latest “Top 40 Value-Creating Banks in China” issued by McKinsey & Company; and was awarded the “Best Investment Value Award for Listed Companies” in the “China Securities Golden Bauhinia Awards” once again.

The abovementioned results would not have been possible without the hard work of the staff as well as the confidence and support of the customers, investors and people from all walks of life. On behalf of the Board, I hereby would like to express our sincere gratitude to the friends from all walks of life who have been caring for and supporting the development of Bank of Zhengzhou. As 2018 will be a fresh start for our development and will bring along new challenges and opportunities, the Bank will continue to enhance its development potential, quality and efficiency and strive to break new ground and construct a new Bank of Zhengzhou through further capacity improvement, risk control, restructuring, intensified innovation and facilitated transformation.

WANG Tianyu

Chairman

CHAPTER IV PRESIDENT'S STATEMENT

In 2017, amidst the complicated and harsh economic and financial environment, the Bank, under the firm leadership of the Board, placed the focus on our characteristic operations to improve the development quality, enhance the quality and efficiency of innovation, and keep good control of various risks, which resulted in fruitful achievements.

In 2017, we set new records in respect of the major operating indexes through arduous endeavors. As at the end of 2017, the Bank's scale of assets increased by RMB69,680 million or 19.03% to RMB435,828 million from the beginning of the year; balance of deposits increased by RMB39,017 million or 18.03% to RMB255,407 million from the beginning of the year; loan balance rose by RMB16,823 million or 15.63% to RMB124,456 million from the beginning of the year; and net profits increased by RMB289 million or 7.14% year-on-year to RMB4,334 million. The NPL ratio was 1.50%, the capital adequacy ratio was 13.53%, and the allowance to NPL ratio was 207.75%, all in compliance with the requirements on regulatory indicators.

In 2017, we carried forward the "three featured businesses" at a higher speed thanks to our cumulative efforts. In 2017, the Bank continued to push ahead the "three featured businesses", being the provision of financial services for the commercial sector, small and micro enterprises and citizens by implementing a range of measures in succession. In respect of providing financial services for the commercial sector, the Bank developed all-rounded solutions applicable to the full chain with a focus on six major industries such as "transportation and logistics", "commerce and high-end consumption", "food and agriculture", "advanced manufacturing", "healthcare" and "government enterprises" and launched the fund deposit and management system, cloud finance system, bank-to-enterprise link system and other relevant systems, thereby further improving the industry focus and continuously replenishing innovative products. In respect of providing financial services for small and micro enterprises, the Bank launched internet-based platform products such as Micro Happy Installment (微樂分), QianBaocar (錢包好車) and Easy Loan (隨心貸) in cooperation with the subsidiaries of prominent online operators such as Tencent and Gome while optimising the big data risk automated warning model and strengthening the establishment of product standardisation and life cycle management for small and micro enterprises. Meanwhile, it also highlighted promotion of featured brands such as the "Easy Disbursement (簡單派)" series. As a result, the Bank maintained progressive growth in respect of microfinance and fulfilled the regulatory requirements of the "Three Minimum Thresholds (三個不低於)". In respect of providing financial services for citizens, it implemented the targeted marketing and released customized wealth management products such as those exclusive for trade union members, payroll services and new customers as well as the "Philanthropist". Besides, it also accelerated the retailing transformation by publishing the citizen financial brand named "Wonderful House (奇妙屋)", launching a mobile banking pass, namely the Bank Securities Express (銀證通), the intelligent counter paperless signature, pre-filling of forms and other functions, and launching the platform of "fast online application (速申)" for credit cards, the livelihood benefit platform as well as universal payment, combined payment, free deposit, Zhengyin Intelligent Investment (鄭銀智投) and other products.

CHAPTER IV PRESIDENT'S STATEMENT (Continued)

In 2017, we obtained more business qualifications in the pursuit of excellence. To be specific, we secured the business qualifications for engagement in fundamental financial derivatives, China Interbank FX Market Derivatives Membership and medium-term lending facilities and were admitted to the book-entry government bond underwriting syndicates as one of the 2018–2020 Class B members. Besides, we have been maintaining our status as a Class A dealer for open market operations.

In 2017, we comprehensively intensified risk management and control with steady steps and strong determination. We established audit centers at our branches and county-level sub-branches so as to optimize the risk preference descriptions and risk tolerance indicators. We also constructed the anti-fraud platform based on big data, set up post-loan management centers at branches in urban areas and for offsite lending and carried out the special self-inspections, concerning the “three violations (三違反)”, the “three forms of arbitrage (三套利)”, the “four improper behaviors (四不當)” and the “ten chaotic phenomena (十亂象)”. As a result, we recorded no undisciplined events and incidents with material security liabilities for the year.

The results would not have been possible without the solicitude and support of the customers, investors and people from all walks of life. On behalf of the Bank, I would like to express our sincere gratitude to people from all walks of life for supporting the development of Bank of Zhengzhou. In 2018, as “deleveraging, intensifying regulations and controlling risks” will become the dominant keynotes in the development of the banking industry, Bank of Zhengzhou will also, out of respect for and in compliance with the regulations, keep up with the times and place our focus on structural adjustment, management enhancement and risk control and improving our capabilities. To be specific, we will highlight risk prevention and control, pay adequate attention to our characteristic lines of business, bolster up personnel, technology and systems of the Bank and properly handle matters concerning the Annual Conference of the City Commercial Banks and the listing of our A Shares, thereby striving to create a new era for the development of Bank of Zhengzhou.

SHEN Xueqing

President

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS

1 PAST ECONOMY AND ENVIRONMENT AND FUTURE PROSPECTS

In 2017, China persisted in making improvements while maintaining a general stable national economy, implemented the new development concept and placed focus on structural reforms on the supply side to promote structural optimization, power conversion and quality enhancement. The national economy witnessed stable improvement and was better than expected. With the continuous release of economic vitality, stimuli and potential, a stable and healthy development was achieved as a result of stability, coordination and sustainability being remarkably improved. In respect of economic aggregate, GDP reached RMB82.7 trillion, representing an increase of 6.9%, the first increase in the rate of growth since 2011, and its contribution to the global economic growth exceeded 30%. In terms of economic vitality, new jobs increased by 13.51 million throughout the year, now having remained above 13 million for 5 consecutive years; and the number of newly registered enterprises was 6.07 million, representing an increase of 9.9%. From the perspective of economic structure, the dominance of the service industry was more prominent and the proportion of tertiary industry in GDP was 51.6%, 11.1 percentage points higher than that of the secondary industry, with its contribution to economic growth being 58.8%, representing an increase of 1.3 percentage points as compared with last year. Consumption continued to be the main driving force for economic growth and the contribution of final consumption to economic growth was 58.8%, 26.7 percentage points higher than gross capital formation. As to economic quality, the energy consumption per RMB10,000 GDP dropped by 3.7% as compared with the last year; there was an obvious trend of upgrade of household consumption and the Engel's coefficient of residents was 29.3%, 0.8 percentage points lower than that for last year. The increase in per capita expenditures on education, culture and entertainment, and health care in 2017 was 8.9% and 11%, respectively, obviously faster than that in the average per capita consumption expenditure of 7.1%. With the further advancement of the “manufacturing industry, service industry and the internet”, the online and offline fusion accelerated, extending the coverage of high-end consumption to middle-income groups.

In 2017, Henan Province of the PRC, where the principal operations of the Bank are located, continued to seek progress while maintaining stability, implement the new development concept and thoroughly promote structural reforms on the supply side. Vigorous efforts were exerted on the “four missions”, namely “optimization and upgrading of industry structure”, “innovation-driven development”, “basic capacity construction” and “new-type urbanization” by virtue of advantages and proactive advancement of the four development strategies, i.e. “three zones and one urban agglomeration”. While solidly carrying out the “four tough fights”, the province earnestly implemented various policies. Accordingly, the provincial economy maintained the trend of improvement amidst overall stability, good progress was achieved in respect of transformation and upgrade and the previous driving force was replaced with a new one, giving rise to quality and efficiency enhancement of economic development. According to the preliminary statistics, GDP in the whole province reached RMB4,498.816 billion with a year-on-year growth of 7.8%, which was 0.9 percentage points higher than the national average. The value added

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

output of industrial enterprises above designated size of the province increased by 8.0%, which was 1.4 percentage points higher than the national level. Fixed asset investment reached RMB4,389.036 billion, with a year-on-year growth of 10.4% and 3.2 percentage points higher than the national growth rate. The general level of consumer prices in the province recorded a year-on-year increase of 1.4%, 0.5 percentage points lower than that of the last year. The producer price index for industrial products increased by 6.8% year-on-year.

In 2017, the Central Bank adhered to the steady and neutral monetary policies and continuously improved the macro-prudential policy. As at the end of December 2017, the balance of broad money (M2) amounted to RMB167.68 trillion with a year-on-year growth of 8.2%; the balance of narrow money (M1) amounted to RMB54.38 trillion with a year-on-year growth of 11.8%; and the balance of cash in circulation (M0) amounted to RMB7.06 trillion with a year-on-year growth of 3.4%. As at the end of December 2017, the RMB loans increased by RMB13.53 trillion throughout the year and the balance of loans reached RMB120.13 trillion, representing a year-on-year increase of 12.7%, with a growth rate of 0.6 percentage points and 0.8 percentage points lower than that at the end of last month and the same period of last year, respectively. The RMB deposits increased by RMB13.51 trillion, which is RMB1.36 trillion lower than the growth for the same period in the previous year, and the balance of RMB deposits amounted to RMB164.1 trillion, representing a year-on-year increase of 9%, with a growth rate of 0.6 percentage points and 2 percentage points lower than that at the end of last month and the same period of last year, respectively. In December 2017, the monthly weighted average interest rate of interbank borrowings in the interbank RMB market was 2.91% and the monthly weighted average interest rate for repurchase of pledged bonds was 3.11%.

In 2017, the CBRC proactively promoted the banking industry to enhance the capacity to serve the real economy and thoroughly regulated the chaotic market in the banking industry. It stressed the prevention and elimination of risks in the banking industry and dealt with the illegal financial institutions and illegal financial activities according to law. The shortcomings of the regulatory system were remedied and reform in the banking industry was further deepened. As a result, positive changes emerged in the banking industry. Firstly, a hint of a shift from high-speed growth to high quality development occurred as the total assets of the banking industry only increased by 8.7% in circumstances where there was an increase in loans of 12.6% throughout the year. Secondly, the trend of capital flowing from the real to virtual economy has been preliminarily contained. The interbank assets and liabilities of commercial banks decreased for the first time since 2010 and the interbank wealth management products recorded a net decrease of RMB3.4 trillion as compared with the beginning of the year. The increase in wealth management products of banks dropped by over RMB5 trillion and the increase in investment via “special purpose vehicles” decreased by approximately RMB10 trillion. The growth rate of total size of off-balance-sheet business fell on a monthly basis. Thirdly, the risk and compliance operation awareness was enhanced. Violations and regulatory arbitrage decreased dramatically and operations tended to be

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

rational and within the rules. Over 100 banks proactively conducted “balance sheet reduction”. Fourthly, the situation of strengthening and tightening regulation has basically taken shape and the deterrent effects of regulation increased significantly.

Looking into 2018, there will be both opportunities and challenges. Internationally, the recovery of the global economy may continue, the monetary policies of major developed economies will further normalize and further interest-rate increases by the U.S. Federal Reserve Board will attract the attention of everyone. The global terminal interest rate may go upward. Underpinned by the global economic recovery, the overseas market demand will pick up to support the PRC economy to a certain extent. However, the external uncertain changes may also extend to the domestic economic and financial fields and the global economic recovery and rise of bulk commodity price may put some pressure on domestic commodity prices. The changes in the orientation of monetary policy adopted by major developed economies will also put pressure over the policy space of our country, increasing the difficulty in implementing monetary policy. Domestically, with the continuously deepened implementation of structural reforms on the supply side, streamlining administration and decentralization, and innovation of the driving strategy, the stability and coordination of economic activity of the PRC will be further enhanced with the improvement of quality and efficiency. It is expected that the PRC economy is likely to maintain stable growth in 2018. However, attention should also be paid to certain problems and hidden troubles in the economy. The driving force for internal growth is still pending intensification. It is a long-term and arduous task to conduct economic restructuring. In addition, the debt and leverage levels are still high and financial regulation will be further improved and reinforced.

Faced with the complicated internal and external environment, the Bank will adhere to the path of sustainable development and properly deal with the relationship between speed and quality. Continuous efforts will be made to strengthen the control of liquidity risk, credit risk and operational risk, improve the risk control capacity, marketing capacity and innovation capacity, and strengthen the supporting role of people, technology and systems. Close attention will be paid to the “three featured businesses” of financial services for the commercial sector, small and micro enterprises and citizens. All staff of the Bank will unite to forge ahead, striving to create a new stage of development for Bank of Zhengzhou.

2 OVERALL OPERATION OVERVIEW

In 2017, the Bank faced difficulties with joint efforts and accomplished the objectives set by the Board after overcoming the severe challenges of an economic downturn, strict regulations and tense circumstances.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operation indicators improved continuously. As at the end of 2017, the Bank's scale of assets increased by RMB69,680 million or 19.03% to RMB435,828 million from the beginning of the year; balance of deposits increased by RMB39,017 million or 18.03% to RMB255,407 million from the beginning of the year; and loan balance rose by RMB16,823 million or 15.63% to RMB124,456 million from the beginning of the year. The net profit attributable to shareholders of the Bank increased by RMB289 million or 7.14% to RMB4,334 million from the previous year; the NPL ratio, capital adequacy ratio and allowance to NPL ratio were 1.50%, 13.53% and 207.75%, respectively. Major regulatory indicators met regulatory requirements. Among the city commercial banks in the PRC, the Bank ranked 19th in respect of scale of assets, up 2 places as compared with the beginning of the year; ranked 18th in terms of the balance of deposits, up 2 places as compared with the beginning of the year; ranked 12th in respect of net profit, representing 1 place up as compared with the beginning of the year; and ranked 24th in terms of balance of loans, the same as compared with the beginning of the year. In respect of the balance of deposits, the Bank ranked 9th among the financial institutions in Henan Province and 1st among financial institutions in Zhengzhou.

The construction of “three featured positions” evolved into a new stage. In 2017, with a new orientation, the Bank did new things. By centering on the “three featured positions”, the Bank carried out the following work: firstly, in respect of development of financial services for the commercial sector, the Bank completed the reform of management structure consisting of “three departments and two centers” and set up the work mechanisms including sales inspection and follow-up inspection of approval efficiency, thus clarifying the business line management and business framework. Secondly, in relation to the six big industries, i.e. “transportation and logistics”, “commerce and high-end consumption”, “food and agriculture”, “advanced manufacturing”, “healthcare” and “government enterprises”, the Bank developed all-rounded solutions covering the whole chain, resulting in continuous enhancement of industry focusing capacity. Thirdly, online fund deposit and management, cloud financing, bank-to-enterprise link system and other systems were launched while many online supply chain businesses were put into operation, accomplishing the task goals as scheduled. Fourthly, the knowledge system for 21 positions including risk manager, product manager, etc., was streamlined and targeted courses were set up to improve the corporate business line training system. Fifthly, the Bank reached the benchmark for commercial logistics as scheduled. Throughout the year, the average daily deposits of 25 benchmark banks increased by RMB22.6 billion and the balance of transaction banking of the 25 benchmark banks increased by RMB16 billion. The number of customers increased by 416 according to sand table simulation and strategic customers increased by 43. 22 out of the 25 benchmark banks have become the key benchmark banks of “commercial logistics”. In terms of development of financial services for small and micro enterprises, firstly, the Bank highlighted the internet way of thinking by cooperating with the subsidiaries of famous e-commerce enterprises such as Tencent and Gome and launched internet platform products such as Micro Happy Installment (微樂分), QianBaocar (錢包好車), and Easy Loan (隨心貸). Secondly, the Bank intensified risk prevention and control through optimization

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

of the big data automatic risk warning model; implementation of reform of shareholder structure and hierarchical management for customers of mature businesses; strengthening the establishment of standardisation and life cycle management of products for small and micro enterprises; simultaneous execution of delayed payment for performance salary and due diligence evaluation; and enhancement of management for the team in charge of business for small and micro enterprises. Thirdly, brand publicity beefed up by virtue of important players in the industry, financial expo, financial technology week and other platforms to spread the concept and tell the story of “Easy Disbursement (簡單派)”. As at the end of 2017, the balance of loans to small and micro enterprises amounted to RMB68.5 billion, representing an increase of RMB9.5 billion or 16% from the beginning of the year. Loans granted for targeted poverty alleviation amounted to RMB10.94 million, which helped 8,500 people to eradicate poverty. As such, the Bank successfully met all the regulatory requirements of the “Three Minimum Thresholds”. In respect of development of financial services for citizens, firstly, product tools were more abundant. The Bank launched open-type wealth management products and custom wealth management products including products exclusive for trade union members, products exclusive for wage payment, products exclusive for new customers, and for “Philanthropist” and developed precision marketing. Secondly, the Bank deeply tapped retail potential by means of launching the McKinsey retail project to accelerate retail transformation; shifted the focus of retail assessment from deposit and sales of wealth management products to individual financial assets; and held a “Line dance competition” for trade union members, “New Year Concert” for VIPs and other activities, leading to an increase in individual financial assets by RMB3.1 billion. Thirdly, the Bank improved the financial “sense of gain” for citizens by capitalizing on the release of the “Wonderful House (奇妙屋)” financial brand for citizens, online mobile banking pass Bank Securities Express, intelligent counter paperless signature, pre-filling of forms and other functions, “fast online application (速申)” platform for credit card, livelihood benefit platform as well as universal payment, combined payment, free deposit, Zhengyin Intelligent Investment (鄭銀智投) and other products. The number of transactions conducted through electronic banking exceeded 40 million with the transaction amount of RMB670 billion and the substitution rate of electronic business reached 92.86%. The number of issued credit cards exceeded 120,000 with an accumulative revenue of over RMB100 million. The daily average balance of deposits increased by RMB9.5 billion as compared with the previous year and the balance thereof increased by RMB6.4 billion from the beginning of the year.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Accomplishing strategic tasks. The initial public offering of A Shares was in the period for advanced disclosure. The Bank was also permitted to jointly undertake the 2018 national annual conference for city commercial banks in Zhengzhou. In addition to the successful issue of Offshore Preference Shares of USD1.191 billion, tier-two capital bonds of RMB2 billion and green financial bonds of RMB3 billion, the Bank stably promoted the network layout covering the whole province including counties and townships by successfully opening Zhumadian and Kaifeng branches and Queshan and Junxian county banks. Therefore, the Bank currently has 12 branches inside the province and manages 7 county banks.

3 ANALYSIS OF INCOME STATEMENT

	For the year ended December 31			
	2017	2016	Change	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Interest income	18,467	15,057	3,410	22.65
Interest expense	(10,361)	(6,757)	(3,604)	53.34
Net interest income	8,106	8,300	(194)	(2.34)
Fee and commission income	1,935	1,260	675	53.57
Fee and commission expense	(70)	(45)	(25)	55.56
Net fee and commission income	1,865	1,215	650	53.50
Net trading (losses)/gains	(475)	79	(554)	(701.27)
Net gains arising from investments	547	208	339	162.98
Other operating income	170	179	(9)	(5.03)
Operating income	10,213	9,981	232	2.32
Operating expenses	(2,752)	(2,435)	(317)	13.02
Impairment losses on assets	(1,957)	(2,346)	389	(16.58)
Operating profit	5,504	5,200	304	5.85
Share of profits of associates	44	57	(13)	(22.81)
Profit before taxation	5,548	5,257	291	5.54
Income tax expense	(1,214)	(1,212)	(2)	0.17
Net profit for the year	4,334	4,045	289	7.14
Net profit attributable to equity shareholders of the Bank	4,280	3,999	281	7.03
Non-controlling interests	54	46	8	17.39

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2017, the Bank recorded profit before taxation and net profit of RMB5,548 million and RMB4,334 million, representing an increase of 5.54% and 7.14% as compared to the same period last year, respectively.

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

In 2017, the Bank recorded net interest income of RMB8,106 million, representing a decrease of RMB194 million or 2.34% as compared to the same period last year. Among this, a net interest income growth of RMB1,644 million was attributable to the expansion of the Bank's business scale and a decline in net interest income of RMB1,838 million was attributable to the changes in yield or cost rate.

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

	For the year ended December 31					
	Average balance ⁽⁶⁾	2017 Interest income	Average yield (%)	Average balance ⁽⁶⁾	2016 Interest income	Average yield (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Interest-earning assets						
Loans and advances to customers	122,040	6,768	5.55	104,144	6,176	5.93
Investment securities and other financial assets ⁽¹⁾	194,935	9,808	5.03	153,949	7,822	5.08
Deposits with central bank	33,284	495	1.49	27,118	417	1.54
Amounts due from banks and other financial institutions ⁽²⁾	31,215	886	2.84	21,670	522	2.41
Finance lease receivables	8,404	510	6.07	2,013	120	5.96
Total interest-earning assets	389,878	18,467	4.74	308,894	15,057	4.87
Interest-bearing liabilities						
Deposits from customers	229,203	4,639	2.02	189,885	3,590	1.89
Amounts due to banks and other financial institutions ⁽³⁾	75,755	2,931	3.87	61,464	1,892	3.08
Debt securities issued	64,312	2,761	4.29	36,161	1,274	3.52
Amounts due to central bank	947	30	3.17	31	1.00	1.77
Total interest-bearing liabilities	370,217	10,361	2.80	287,541	6,757	2.35
Net interest income		8,106			8,300	
Net interest spread⁽⁴⁾			1.94			2.52
Net interest margin⁽⁵⁾			2.08			2.69

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Notes:

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

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	For the year ended December 31 2017 vs. 2016		
	Increase/(decrease) due to		Net increase/
	Volume ⁽¹⁾	Rate ⁽²⁾	(decrease) ⁽³⁾
<i>(Expressed in millions of RMB)</i>			
Interest-earning assets			
Loans and advances to customers	1,061	(469)	592
Investment securities and other financial assets	2,082	(96)	1,986
Deposits with central bank	95	(17)	78
Amounts due from banks and other financial institutions	230	134	364
Finance lease receivables	381	9	390
Changes in interest income	3,849	(439)	3,410
Interest-bearing liabilities			
Deposits from customers	743	306	1,049
Amounts due to banks and other financial institutions	440	599	1,039
Debt securities issued	992	495	1,487
Amounts due to central bank	30	(1)	29
Change in interest expense	2,205	1,399	3,604

Notes:

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

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.2 Interest income

In 2017, the Bank's interest income increased by RMB3,410 million or 22.65% to RMB18,467 million as compared to the same period last year, which was primarily attributable to: (i) the increase in the volume for loans and advances to customers; (ii) the increase in the volume of investment securities and other financial assets; (iii) the increase in the volume due from banks and other financial institutions; and (iv) the increase in the volume of finance lease receivables.

3.2.1 Interest income from loans and advances to customers

In 2017, interest income from loans and advances to customers of the Bank increased by RMB592 million or 9.59% to RMB6,768 million as compared to the same period last year, primarily as a result of the increase in average balance of loans and advances to customers of RMB17,896 million. The Bank closely focused on the three featured positions of providing financial services for “commercial sector”, “small and micro enterprises” and “citizens” and further intensified loan marketing, thus promoting the overall growth of loan business.

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

	For the year ended December 31					
	Average balance	2017 Interest income	Average yield (%)	Average balance	2016 Interest income	Average yield (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Corporate loans	89,186	5,007	5.61	73,995	4,561	6.16
Personal loans	29,412	1,681	5.72	22,979	1,398	6.08
Discounted bills	3,442	80	2.32	7,170	217	3.03
Total loans and advances to customers	122,040	6,768	5.55	104,144	6,176	5.93

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.2.2 Interest income from investment in securities and other financial assets

In 2017, interest income from investment in securities and other financial assets of the Bank increased by RMB1,986 million or 25.39% to RMB9,808 million as compared to the same period last year, which was principally attributable to the increase of RMB40,986 million in the average balance of investment in securities and other financial assets as compared to the same period last year.

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

In 2017, interest income from amounts due from banks and other financial institutions of the Bank increased by RMB364 million or 69.73% to RMB886 million as compared with the same period last year, which was primarily attributable to the increase in the interest rate and volume of the amounts due from banks and other financial institutions.

3.2.4 Interest income from finance lease receivables

In 2017, interest income from finance lease receivables increased by RMB390 million or 325.00% to RMB510 million as compared with the same period last year, which was primarily attributable to the establishment of a subsidiary, Jiuding Financial Leasing Company (九鼎金融租賃公司), by the Bank on 23 March 2016, and the subsequent devotion of great efforts in the finance lease business.

3.3 Interest Expense

In 2017, the Bank's interest expense increased by RMB3,604 million or 53.34% to RMB10,361 million as compared to the same period last year, which was primarily attributable to: (i) the increase in the volume of deposits from customers; (ii) the increase in the volume of amounts due to banks and other financial institutions; and (iii) the increase in the volume of debt securities issued.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.3.1 Interest expense on deposits from customers

In 2017, the Bank's interest expense on deposits from customers increased by RMB1,049 million or 29.22% to RMB4,639 million as compared to the same period last year, which was primarily attributable to the continuous growth of the Bank's deposit business and the increase in the proportion of term deposits since the Bank strengthened its relationship with customers and expanded its branch and sub-branch network.

For the year ended December 31						
	2017			2016		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Corporate deposits						
Demand	78,944	412	0.52	65,459	336	0.51
Time	67,517	2,545	3.77	46,185	1,900	4.11
Subtotal	146,461	2,957	2.02	111,644	2,236	2.00
Personal deposits						
Demand	15,320	74	0.48	12,863	52	0.40
Time	48,133	1,288	2.68	40,825	939	2.30
Subtotal	63,453	1,362	2.15	53,688	991	1.85
Others	19,289	320	1.66	24,553	363	1.48
Total deposits from customers	229,203	4,639	2.02	189,885	3,590	1.89

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

In 2017, the Bank's interest expense on amounts due to banks and other financial institutions increased by RMB1,039 million or 54.92% to RMB2,931 million as compared with the same period last year, which was primarily attributable to the increase in the average balance of the amounts due to banks and other financial institutions and the cost rate. The increase in the average balance of the amounts due to banks and other financial institutions primarily reflected the increase in liabilities from banks after the Bank's comprehensive consideration of the need to match assets and liabilities, while the increase in the average cost rate was primarily because of the increase in market interest rates.

3.3.3 Interest expense on debt securities issued

In 2017, the Bank's interest expense on debt securities issued increased by RMB1,487 million or 116.72% to RMB2,761 million as compared with the same period last year, which was primarily attributable to the increase in debt securities issued and the rise in the cost rate. The average balance of the debt securities issued increased by RMB28,151 million as compared with last year, which was primarily attributable to the issuance of new interbank certificates of deposit and the green financial bonds in 2017. The increase in the average cost rate for the debt securities issued was primarily attributable to the increase in market interest rates.

3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 2.52% for last year to 1.94% for the current year, while the Bank's net interest margin decreased from 2.69% for last year to 2.08% for the current year. The declines in net interest spread and net interest margin were primarily attributable to: (i) the decline in the average yield of interest-earning assets such as investment in securities, other financial assets and loans and advances to customers; and (ii) the higher proportion of the amounts due to banks and other financial institutions with higher yield and the debt securities issued to total liabilities.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.4 Non-interest Income

3.4.1 Net fee and commission income

In 2017, the Bank's net fee and commission income increased by RMB650 million or 53.50% to RMB1,865 million as compared with the same period last year, which was primarily attributable to the increase in agency and custody services fees, underwriting and advisory fees as well as acceptance and guarantee services fees, which in turn reflected the overall growth of the Bank's fee and commission business.

	For the year ended December 31			
	2017	2016	Change	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Fee and commission income				
Agency and custody services fees	1,283	540	743	137.59
Underwriting and advisory fees	409	374	35	9.36
Acceptance and guarantee services fees	156	117	39	33.33
Bank card services fees	77	49	28	57.14
Others	10	180	(170)	(94.44)
Fee and commission expense	(70)	(45)	(25)	55.56
Net fee and commission income	1,865	1,215	650	53.50

In 2017, the Bank's agency and custody services fees income reached RMB1,283 million, increasing by RMB743 million or 137.59% as compared with the same period last year, which was primarily attributable to the Bank's continuous development of its agency and custodian business which resulted in an increasing number of clients and business volume.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2017, the Bank's securities underwriting and advisory business fees income reached RMB409 million, increasing by RMB35 million or 9.36% as compared with the same period last year, which was primarily attributable to the continuous increase in the scale of advisory services offered and the number of bonds underwritten.

In 2017, the Bank's acceptance and guarantee fees income reached RMB156 million, increasing by RMB39 million or 33.33% as compared with the same period last year, which was primarily attributable to the continuous increase in business volume of acceptance and guarantee services.

In 2017, the Bank's bank card services fees income was RMB77 million, increasing by RMB28 million or 57.14% as compared with the same period last year, which was primarily attributable to the increase in the number of bank cards issued by the Bank and the growth in related transaction amount.

3.4.2 Net trading (losses)/gains

In 2017, the Bank's net trading loss reached RMB475 million, which was primarily attributable to the loss in the financial statements of the Bank caused by the fluctuations in the U.S. dollar exchange rate in 2017.

3.4.3 Net gains arising from investments

In 2017, the Bank's net gains arising from investments increased by RMB339 million or 162.98% to RMB547 million as compared with the same period last year, which was primarily attributable to the realised gains on investment securities increasing substantially this year.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.5 Operating Expenses

In 2017, the Bank's operating expenses increased by RMB317 million or 13.02% to RMB2,752 million as compared with the same period last year, which was primarily attributable to the growth in staff costs.

	For the year ended December 31			
	2017	2016	Change	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Staff costs	1,408	1,194	214	17.92
Depreciation and amortisation	262	213	49	23.00
Rental and property management expenses	203	176	27	15.34
Office expenses	91	77	14	18.18
Tax and surcharges	79	212	(133)	(62.74)
Other general and administrative expenses	709	563	146	25.93
Total operating expenses	2,752	2,435	317	13.02

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

For the year ended December 31				
	2017	2016	Change	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Staff costs				
Salaries, bonuses and allowances	931	801	130	16.23
Social insurance and annuity	203	161	42	26.09
Staff welfare	168	145	23	15.86
Housing allowances	60	47	13	27.66
Supplementary retirement benefits	6	7	(1)	(14.29)
Others	40	33	7	21.21
Total staff costs	1,408	1,194	214	17.92

In 2017, the total staff costs of the Bank were RMB1,408 million, increasing by RMB214 million or 17.92% as compared with the same period last year, which was primarily attributable to the increase in salary, bonus and staff allowance. Staff costs represented the largest component of the Bank's operating expenses, and accounted for 51.16% and 49.03% of the total operating expenses in 2017 and 2016, respectively.

In 2017, depreciation and amortisation expenses amounted to RMB262 million, increasing by RMB49 million or 23.00% as compared with the same period last year, which was primarily attributable to the increase of fixed assets and intangible assets depreciated and amortized given the expansion of the branch network and upgrading of information technology.

In 2017, rental and property management expenses were RMB203 million, increasing by RMB27 million or 15.34%, which was primarily attributable to the expansion of the branch network.

In 2017, office expenses were RMB91 million, increasing by RMB14 million or 18.18% as compared with the same period last year, which was primarily attributable to the Bank's business expansion.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2017, the Bank's tax and surcharges were RMB79 million, decreasing by RMB133 million or 62.74% as compared with the same period last year, primarily because the Bank was subject to value added taxes instead of business tax given the nationwide comprehensive implementation of the pilot work for transition from business tax to VAT since May 1, 2016 according to the requirements of the document "Cai Shui [2016] No. 36".

In 2017, other general and administrative expenses were RMB709 million, increasing by RMB146 million or 25.93% as compared with the same period last year. Other general and administrative expenses primarily included marketing expenses, advertising expenses, travelling expenses and certain other expenses.

3.6 Impairment Losses

In 2017, the Bank's impairment losses decreased by RMB389 million or 16.58% to RMB1,957 million as compared with the same period last year, which was primarily attributable to the decrease in the impairment losses of loans and advances to customers.

	For the year ended December 31			
	2017	2016	Change	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Loans and advances to customers	1,744	1,972	(228)	(11.56)
Financial investments classified as receivables	120	285	(165)	(57.89)
Finance lease receivables	85	58	27	46.55
Others	8	31	(23)	(74.19)
Total provision for asset impairment losses	1,957	2,346	(389)	(16.58)

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.7 Income Tax Expenses

In 2017, the Bank's income tax increased by RMB2 million or 0.17% to RMB1,214 million, which was primarily attributable to the increase in the Bank's profit before taxation.

	For the year ended December 31			
	2017	2016	Change	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Current income tax	1,496	1,587	(91)	(5.73)
Deferred income tax	(292)	(379)	87	(22.96)
Adjustment for prior years	10	4	6	150.00
Total income tax expenses	1,214	1,212	2	0.17

4 ANALYSIS OF KEY ITEMS OF FINANCIAL POSITION

4.1 Assets

As at December 31, 2017, the Bank's total assets increased by RMB69,680 million or 19.03% to RMB435,828 million from the end of last year. The principal components of the Bank's assets consist of: (i) loans and advances to customers (net); and (ii) investment securities and other financial assets. These components increased by RMB16,823 million and RMB39,530 million, respectively, compared with the end of last year.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Gross loans and advances to customers	128,456		111,092	
Allowance for impairment losses	4,000		(3,459)	
Loans and advances to customers, net	124,456	28.56	107,633	29.40
Investment securities and other financial assets	222,674	51.08	183,144	50.02
Cash and deposits with central bank	45,635	10.47	42,586	11.63
Deposits with banks and other financial institutions	4,724	1.08	1,415	0.39
Placements with banks and other financial institutions	15,298	3.51	11,758	3.20
Financial assets held under resale agreements	4,407	1.01	5,120	1.40
Finance lease receivables	10,491	2.41	5,721	1.56
Other assets	8,143	1.88	8,771	2.40
Total assets	435,828	100.00	366,148	100.00

4.1.1 Loans and advances to customers

As at December 31, 2017, the Bank's total loans and advances to customers increased by RMB17,364 million to RMB128,456 million, representing an increase of 15.63% as compared with the end of last year. Our loans and advances to customers consist primarily of corporate loans, personal loans and discounted bills.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Corporate loans	92,249	71.81	81,255	73.14
Personal loans	34,113	26.56	24,815	22.34
Discounted bills	2,094	1.63	5,022	4.52
Total loans and advances to customers	128,456	100.00	111,092	100.00

(1) Corporate loans

Corporate loans are the largest component of the Bank's loan portfolio. As at December 31, 2017, the Bank's corporate loans reached RMB92,249 million or 71.81% of the Bank's total loans and advances to customers, representing an increase of RMB10,994 million or 13.53% as compared with the end of last year. The increase was mainly due to: (i) the Bank's continued commitment to meet the capital requirements of the rapidly-growing wholesale and retail industry and to develop the loan business for small and micro enterprises; and (ii) the Bank's efforts to continue to strengthen business cooperation with quality clients in various sectors to sustain the growth of the relevant loan balance.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Unsecured loans	11,742	12.73	6,455	7.95
Guaranteed loans	32,551	35.28	33,424	41.13
Loans secured by mortgages	21,741	23.57	20,198	24.86
Loans secured by pledges	26,215	28.42	21,178	26.06
Total corporate loans	92,249	100.00	81,255	100.00

(2) Personal loans

As at December 31, 2017, the Bank's personal loans increased by RMB9,298 million to RMB34,113 million, representing an increase of 37.47% as compared with the end of last year. The continued growth of the Bank's personal loans was mainly attributable to the increases in personal residential mortgage and personal consumption loans. As at December 31, 2017, the balance of personal residential mortgage loans increased by 49.24% as compared with last year, which was mainly attributable to the growth of individual housing demand driven by the continued implementation of various planning and construction projects as a result of the addition of Zhengzhou to the list of national central cities. The balance of personal consumption loans increased by 82.32% as compared with last year, which was mainly attributable to the Bank's greater efforts in innovating the consumption loan products.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Personal business loans	12,852	37.67	11,750	47.35
Personal residential mortgage loans	10,241	30.02	6,862	27.65
Personal consumption loans	8,828	25.88	4,842	19.51
Auto loans	1,065	3.12	491	1.98
Credit card balances	1,127	3.31	870	3.51
Total personal loans	34,113	100.00	24,815	100.00

(3) Discounted bills

As at December 31, 2017, the Bank's discounted bills decreased by RMB2,928 million to RMB2,094 million, representing a decrease of 58.30% as compared with the end of last year. In 2017, the Bank flexibly adjusted the scale of bill financing to meet the business development requirements and clients' financing needs.

4.1.2 Investment securities and other financial assets

As at December 31, 2017, the total amount of the Bank's investment securities and other financial assets increased by RMB39,530 million to RMB222,674 million, representing an increase of 21.58% as compared with the end of last year. The increase in such assets of the Bank for 2017 was mainly due to the increase in our holding of investment products of various types and continuous exploration of new capital utilization channels to enhance our capital utilization efficiency.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Financial investments classified as loans and receivables	116,471	52.30	118,225	64.55
Held-to-maturity investments	59,268	26.62	49,671	27.12
Available-for-sale financial assets	35,086	15.76	6,302	3.44
Financial assets at fair value through profit or loss	11,849	5.32	8,946	4.89
Total investment securities and other financial assets	222,674	100.00	183,144	100.00

Our investment securities and other financial assets are classified into fixed-income securities and equity instruments. During the Reporting Period, substantially all of our investment securities and other financial assets were fixed-income securities.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets forth, as at the dates indicated, the distribution of the Bank's investment securities and other financial assets by fixed income securities and equity instruments.

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Government bonds	20,178	9.04	14,783	8.05
Debt securities issued by policy banks	30,253	13.55	32,869	17.90
Debt securities issued by banks and other financial institutions	6,283	2.81	6,917	3.76
Debt securities issued by corporate issuers	7,505	3.36	4,974	2.71
Subtotal	64,219	28.76	59,543	32.42
Investment products under trust schemes	73,868	33.08	52,795	28.75
Investment products managed by securities companies	58,448	26.17	45,080	24.54
Others	26,771	11.99	26,238	14.29
Total	223,306	100.00	183,656	100.00
Less: Allowance for impairment losses	(640)		(520)	
Total fixed-income instruments	222,666		183,136	
Equity instruments	8		8	
Total investment securities and other financial assets	222,674		183,144	

As at December 31, 2017, the Bank's net fixed-income securities totaled RMB222,666 million, increasing by RMB39,530 million or 21.59% as compared with the end of last year. The continued growth of the fixed-income securities held by the Bank was mainly attributable to the increase in our holding of financial bonds, investment products under trust schemes and investment products managed by securities companies.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.1.3 Other components of the Bank's assets

Other components of the Bank's assets primarily consist of: (i) cash and deposits with the Central Bank; (ii) deposits with banks and other financial institutions; (iii) placements with banks and other financial institutions; (iv) financial assets held under resale agreements; and (v) financial lease receivables.

As at December 31, 2017, the Bank's cash and deposits with the Central Bank increased by RMB3,049 million to RMB45,635 million, representing an increase of 7.16% as compared with the end of last year, which was mainly due to the increase in the volume of deposits from customers which increased the statutory deposit reserve required to be held with the PBoC.

As at December 31, 2017, deposits with banks and other financial institutions increased by RMB3,309 million to RMB4,724 million, representing an increase of 233.85% as compared with the end of last year, which was mainly due to adjustment to the weight of such assets by the Bank based on its capital status and changes in market liquidity.

As at December 31, 2017, placements with banks and other financial institutions increased by RMB3,540 million to RMB15,298 million, representing an increase of 30.11% as compared with the end of last year, which was mainly due to the adjustment made by the Bank based on the need to match assets and liabilities and adjust to the state of market liquidity.

As at December 31, 2017, financial assets held under resale agreements decreased by RMB713 million to RMB4,407 million, representing a decrease of 13.93% as compared with the end of last year, which was mainly due to the adjustment made by the Bank based on the need to match assets and liabilities and adjust to the state of market liquidity.

As at December 31, 2017, the Bank's total finance lease receivables increased by RMB4,770 million to RMB10,491 million, representing an increase of 83.38% as compared with the end of last year. The change in these assets was mainly due to the continuous expansion in the leasing business of Jiuding Financial Leasing Company, a subsidiary of the Bank established in 2016.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.2 Liabilities

As at December 31, 2017, the Bank's total liabilities increased by RMB58,101 million to RMB402,388 million, representing an increase of 16.88% as compared with the end of last year.

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Due to central bank	1,600	0.40	77	0.02
Deposits from customers	255,407	63.47	216,390	62.85
Deposits from banks and other financial institutions	28,934	7.19	25,808	7.50
Placements from banks and other financial institutions	22,348	5.55	19,106	5.55
Financial assets sold under repurchase agreements	14,086	3.50	33,251	9.66
Debt securities issued	73,170	18.18	44,660	12.97
Derivative financial liabilities	32	0.01	–	–
Other liabilities ⁽¹⁾	6,811	1.70	4,995	1.45
Total liabilities	402,388	100.00	344,287	100.00

Note:

- (1) Other liabilities primarily consist of interest payable, items in the process of clearance and settlement, dormant accounts, income tax payable and other tax payable, staff costs payable, provisions and certain other liabilities.

4.2.1 Deposits from customers

As at December 31, 2017, the Bank's deposits from customers increased by RMB39,017 million to RMB255,407 million, representing an increase of 18.03% as compared with the end of last year. The increase in the Bank's deposits from customers was primarily attributable to the general business growth generated by the Bank's continuous expansion of deposit customers and branch network.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Corporate deposits				
Demand	88,514	34.66	77,197	35.67
Time	79,851	31.27	54,783	25.32
Subtotal	168,365	65.93	131,980	60.99
Personal deposits				
Demand	19,806	7.75	16,178	7.48
Time	47,757	18.69	44,647	20.63
Subtotal	67,563	26.44	60,825	28.11
Other deposits	19,479	7.63	23,585	10.90
Total	255,407	100.00	216,390	100.00

4.2.2 Deposits from banks and other financial institutions

As at December 31, 2017, the balance of deposits from banks and other financial institutions of the Bank increased by RMB3,126 million to RMB28,934 million, representing an increase of 12.11% as compared with the end of last year, which mainly reflected the Bank's expansion of interbank source of funds so as to meet the changes in fund demand.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.2.3 Placements from banks and other financial institutions

As at December 31, 2017, the balance of placements from banks and other financial institutions of the Bank increased by RMB3,242 million to RMB22,348 million, representing an increase of 16.97% as compared with the end of last year. The changes in the placements from banks and other financial institutions was mainly due to the Bank's expansion of the sources of interbank funds so as to meet the changes in fund demand.

4.2.4 Financial assets sold under repurchase agreements

As at December 31, 2017, the Bank's financial assets sold under repurchase agreements decreased by RMB19,165 million to RMB14,086 million, representing a decrease of 57.64% as compared with the end of last year. The decrease was mainly due to the reduction of the proportion of financial assets sold under repurchase agreements to the Bank's liabilities by the Bank based on market liquidity considerations and the Bank's capital needs after taking into consideration the need for assets and liabilities matching.

4.2.5 Debt securities issued

As at December 31, 2017, the balance of debt securities issued increased by RMB28,510 million to RMB73,170 million, representing an increase of 63.84% as compared with the end of last year. The change in the debt securities issued was mainly due to the issuance of new interbank certificates of deposit and the green financial bonds.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.3 Shareholders' Equity

As at December 31, 2017, the Bank's shareholders' equity increased by RMB11,579 million to RMB33,440 million, representing an increase of 52.97% as compared with the end of last year. As at December 31, 2017, the total equity attributable to shareholders of the parent company increased by RMB10,911 million to RMB32,207 million, representing an increase of 51.23% as compared with the end of last year. The increase in shareholders' equity was mainly due to proceeds of USD1.191 billion raised from the successful issuance of Offshore Preference Shares on October 18, 2017 and the increase in profit for the year.

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Share capital	5,322	15.91	5,322	24.35
Capital reserve	3,055	9.14	3,053	13.97
Surplus reserve	2,055	6.15	1,633	7.47
General reserve	5,520	16.51	4,528	20.71
Investment revaluation reserve	(23)	(0.07)	3	0.01
Remeasurement of net defined benefit liability	(52)	(0.16)	(52)	(0.24)
Retained earnings	8,504	25.43	6,809	31.15
Other equity instruments	7,826	23.40	–	–
Total equity attributable to shareholders of the Bank	32,207	96.31	21,296	97.42
Non-controlling interests	1,233	3.69	565	2.58
Total equity	33,440	100.00	21,861	100.00

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

5 OFF-BALANCE SHEET COMMITMENTS

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

	As at December 31, 2017 (Expressed in millions of Renminbi)	As at December 31, 2016 (Expressed in millions of Renminbi)
Credit commitments		
Bank acceptances	57,539	58,123
Letters of credit	5,264	2,984
Guarantees	3,987	1,171
Unused credit card commitments	1,276	1,006
Total	68,066	63,284

In addition, as at December 31, 2017, there was no material litigation in which either the Bank or subsidiaries of the Bank is a defendant. As at the results announcement date of the Bank, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments are disclosed in the section headed "Commitments and contingent liabilities" in the notes to the financial statement of this annual report.

6 ANALYSIS ON LOAN QUALITY

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

As at December 31, 2017, the balance of non-performing loans amounted to RMB1,926 million. The non-performing loan ratio was 1.50%, up 19 bps as compared with the end of last year.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.1 Distribution of Loans by Five-Category Loan Classification

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Normal	122,264	95.18	106,383	95.76
Special mention	4,266	3.32	3,252	2.93
Substandard	1,361	1.06	1,041	0.94
Doubtful	562	0.44	415	0.37
Loss	3	—	1	—
Total loans and advances to customers	128,456	100.00	111,092	100.00
NPLs and NPL ratio⁽¹⁾	1,926	1.50	1,457	1.31

Note:

(1) NPL ratio is calculated by dividing total NPLs by total loans and advances to customers.

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

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

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

	As at December 31, 2017				As at December 31, 2016			
	Amount	% of total	NPL Amount	NPL ratio	Amount	% of total	NPL Amount	NPL ratio
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>								
Corporate loans								
Short-term loans	55,640	43.31	1,315	2.36	53,609	48.25	956	1.78
Medium and long-term loans	36,609	28.50	303	0.83	27,646	24.89	260	0.94
Discounted bills	2,094	1.63	–	–	5,022	4.52	–	–
Subtotal	94,343	73.44	1,618	1.72	86,277	77.66	1,216	1.41
Personal loans								
Personal business loans	12,852	10.01	225	1.75	11,750	10.58	196	1.67
Personal residential mortgage loans	10,241	7.97	3	0.03	6,862	6.18	3	0.04
Personal consumption loans	8,828	6.87	73	0.83	4,842	4.36	39	0.81
Auto loans	1,065	0.83	2	0.19	491	0.44	–	–
Credit card balance	1,127	0.88	5	0.44	870	0.78	3	0.34
Subtotal	34,113	26.56	308	0.90	24,815	22.34	241	0.97
Total	128,456	100.00	1,926	1.50	111,092	100.00	1,457	1.31

In 2017, the Bank actively responded to the national policies by strengthening the adjustment of loans structure and continuing to develop microcredit business (corporate loans to small enterprises and personal loans). At the end of the Reporting Period, the NPL ratio of corporate loans rose to 1.72%, which was mainly due to the fact that the economic downturn has adversely affected the operation of enterprises in general as evidenced by the fast increases of corporate loans, overcapacity, relatively high pressure in destocking and decrease in both sales volume and prices, making it difficult for enterprises to continue their operations. However, the loan risks of the Bank are controllable in general. The NPL ratio of personal loans decreased by 7 bps as compared with last year, mainly due to those targeted measures taken by the Bank, such as optimization of customer structure and change in methods for dissolution of NPLs, which effectively lowered the NPL ratio of personal loans.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.3 Distribution of Loans and Non-Performing Loans by Industry

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

	As at December 31, 2017				As at December 31, 2016			
	Amount	% of total (%)	NPL Amount	NPL ratio (%)	Amount	% of total (%)	NPL Amount	NPL ratio (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>								
Wholesale and retail	32,436	25.25	521	1.61	29,898	26.91	373	1.25
Manufacturing	13,679	10.65	869	6.35	13,055	11.75	688	5.27
Construction	11,951	9.30	38	0.32	10,687	9.62	35	0.33
Real estate	9,991	7.78	–	–	8,737	7.87	–	–
Leasing and commercial services	7,642	5.95	16	0.21	4,092	3.68	4	0.10
Water, environment and public facility management	3,676	2.86	–	–	2,088	1.88	–	–
Agriculture, forestry, animal husbandry and fishery	2,292	1.78	71	3.10	3,620	3.26	88	2.43
Transportation, storage and postal services	2,386	1.86	19	0.80	1,361	1.23	6	0.44
Production and supply of electric and heating power, gas and water	1,765	1.37	–	–	1,391	1.25	–	–
Accommodation and catering	1,075	0.84	51	4.74	1,082	0.97	–	–
Public administration, public security and social organisations	328	0.26	–	–	914	0.82	–	–
Mining	223	0.17	4	1.79	1,509	1.36	–	–
Culture, sports and entertainment	382	0.30	–	–	210	0.19	–	–
Others	4,423	3.44	29	0.66	2,611	2.35	22	0.84
Total corporate loans	92,249	71.81	1,618	1.75	81,255	73.14	1,216	1.50
Total personal loans	34,113	26.56	308	0.90	24,815	22.34	241	0.97
Discounted bills	2,094	1.63	–	–	5,022	4.52	–	–
Total	128,456	100.00	1,926	1.50	111,092	100.00	1,457	1.31

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As at December 31, 2017, the non-performing corporate loans of the Bank were mainly concentrated in the manufacturing industry, the accommodation and catering industry, and the agriculture, forestry, animal husbandry and fishery industry, with NPL ratios of 6.35%, 4.74% and 3.10%, respectively.

6.4 Distribution of Loans and Non-Performing Loans by Collateral

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

	As at December 31, 2017				As at December 31, 2016			
	Amount	% of total	NPL Amount	NPL ratio	Amount	% of total	NPL Amount	NPL ratio
		(%)		(%)		(%)		(%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>								
Unsecured loans	15,454	12.03	10	0.06	7,660	6.90	3	0.04
Guaranteed loans	39,140	30.47	1,511	3.86	42,790	38.52	1,178	2.75
Loans secured by mortgages	43,574	33.92	381	0.87	33,254	29.93	253	0.76
Loans secured by pledges	30,288	23.58	24	0.08	27,388	24.65	23	0.08
Total	128,456	100.00	1,926	1.50	111,092	100.00	1,457	1.31

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.5 Borrowers Concentration

As at December 31, 2017, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to any single borrower. The following table sets forth, as at December 31, 2017, the Bank's loans (in terms of loan balance) to the ten largest single borrowers (excluding group borrowers), all of which were classified as normal.

		As at December 31, 2017		
Industry		Balance	% of total loans (%)	% of net capital (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Borrower A	Construction	1,298	1.01	3.12
Borrower B	Leasing and commercial	1,175	0.91	2.82
Borrower C	Water, environment and public facility management	990	0.77	2.38
Borrower D	Real estate	900	0.70	2.16
Borrower E	Leasing and commercial	898	0.70	2.16
Borrower F	Transportation, storage and postal services	887	0.69	2.13
Borrower G	Transportation, storage and postal services	794	0.62	1.91
Borrower H	Leasing and commercial	762	0.59	1.83
Borrower I	Leasing and commercial	757	0.59	1.82
Borrower J	Financial services	700	0.54	1.68
Total		9,161	7.12	22.01

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.6 Overdue Loans

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Current loans	121,579	94.65	105,989	95.41
Loans past due for ⁽¹⁾ :				
1 to 90 days	3,582	2.79	3,218	2.90
91 to 360 days	2,176	1.69	1,536	1.38
361 days or more	1,119	0.87	349	0.31
Subtotal	6,877	5.35	5,103	4.59
Total loans	128,456	100.00	111,092	100.00

Note:

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

As at December 31, 2017, the amount of overdue loans totaled RMB6,877 million, increasing by RMB1,774 million as compared with the end of last year. Overdue loans accounted for 5.35% of the total loans, increasing by 76 bps as compared with last year. The increase in overdue loans was mainly a result of continued economic downturn in 2017, which has adversely affected the operation of enterprises in general as evidenced by serious overcapacity, relatively high pressure in destocking and decrease in both sales volume and prices, making it difficult for enterprises to continue their operations. The shortage of cash flow in turn led to principal and interest amounts being overdue. The Bank will continue to strengthen risk alert and monitoring, and accelerate the risk elimination.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

7 BUSINESS SEGMENT REPORT

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

	As at December 31, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Corporate banking business	4,316	42.27	3,895	39.03
Retail banking business	1,369	13.40	1,035	10.37
Treasury business	4,358	42.67	4,872	48.81
Others ⁽¹⁾	170	1.66	179	1.79
Total operating income	10,213	100.00	9,981	100.00

Note:

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

8 ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank continued to optimise its business structure and strengthen its capital management. As at December 31, 2017, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 13.53%, 10.49% and 7.93%, respectively, among which, the capital adequacy ratio and tier-one capital adequacy ratio increased by 177 bps and 169 bps, and the core tier-one capital adequacy ratio decreased by 86 bps, respectively, as compared with the end of last year, which fulfilled the requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional) (the "New Measures") issued by the CBRC for the transition period. The changes in capital adequacy ratio were mainly due to the increase in risk-weighted assets resulting from the increase in size of assets of the Bank.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In accordance with the New Measures issued by the CBRC, the capital adequacy ratio of the Bank was as follows:

	As at December 31, 2017	As at December 31, 2016
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>		
Core tier-one capital		
Share capital	5,322	5,322
Valid portion of capital reserve	2,980	3,004
Surplus reserve	2,055	1,633
General reserve	5,520	4,528
Retained earnings	8,504	6,809
Valid portion of minority interests	453	363
Total core tier-one capital	24,834	21,659
Core tier-one capital deductions	(456)	(384)
Net core tier-one capital	24,378	21,275
Additional tier-one capital		
Additional tier-one capital instruments and related premium	7,826	—
Valid portion of minority interests	60	37
Net tier-one capital	32,264	21,312
Tier-two capital		
Qualifying portions of tier-two capital instruments issued	7,000	5,000
Surplus provision for loan impairment	2,231	2,080
Valid portion of minority interests	121	71
Net tier-two capital	9,352	7,151
Net capital base	41,616	28,463
Total risk-weighted assets	307,475	242,109
Core tier-one capital adequacy ratio	7.93	8.79
Tier-one capital adequacy ratio	10.49	8.80
Capital adequacy ratio	13.53	11.76

9 BUSINESS OPERATION

9.1 Corporate Banking Business

9.1.1 Corporate deposit and loan business

Corporate deposits

In 2017, amidst the continuing deterioration of the macro-economic environment and the pressure from the stricter financial regulation policies, the Bank achieved a continuous growth in corporate deposits. The Bank advanced the development of its investment banking business and its trade finance business to further carry forward the transformation and upgrading of its businesses. It also leveraged on its portfolio of corporate liability products and innovation capability to further enhance the comprehensive efficiency of corporate deposits. The Bank also promoted and speeded up its sales marketing to strategic customers and deeply explored the potential of customers. Strengthened cooperation with the Henan Provincial Government and municipal governments also resulted in the continuous improvement of the quality of deposits related to financial businesses.

As at December 31, 2017, the Bank's balance of corporate deposits amounted to RMB168,365 million, accounting for 65.93% of the total balance of general deposits, representing an increase of RMB36,385 million or 27.57% as compared with the previous year. Meanwhile, in 2017, the Bank proactively developed business cooperation with institutions including the Zhengzhou City Public Resources Trading Centre, the Henan Social Security Bureau, and the Department of Land and Resources of Henan Province to further strengthen the central management of financial and land-related capital and strengthened strategic customer resources to improve the overall contribution of its corporate customers.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Corporate loans

The Bank enhanced its efforts for credit risk management by means of strengthening research on credit extension policies, optimizing the approval system for credit extension, enhancing the establishment of independent approval person team, setting up the risk limit management and control system and improving the management of the Group's credit extension business, with innovative development and preventing risks as the main focus. Meanwhile, in order to facilitate the adjustment of its credit structure, the Bank increased its withdrawal from over-capacity industries and actively promoted the establishment of the green credit system.

As at December 31, 2017, the Bank's total balance of corporate loans amounted to RMB94,343 million, representing an increase of RMB8,066 million or 9.35% as compared with the end of the previous year. Apart from discounted bills, the total balance of corporate loans amounted to RMB92,249 million, representing an increase of RMB10,994 million or 13.53% as compared with the end of the previous year and accounted for 71.81% of the total loan amount.

9.1.2 Customer management and team building

Customer management

In 2017, the Bank continued to optimize its customer relationship management ("CRM") work. It introduced an advanced sales process management method via the McKinsey & Company Program, enhanced the customer marketing management of the entire bank and reformed and optimized the CRM system, achieving online and intelligent analysis of its sales process management, and managed the development of the customer marketing of the entire bank, which further strengthened our customer base, and effectively enhanced the management efficiency of our relationships with customers and customer managers. Taking advantage our extensive network layout in Henan Province and advanced CRM methods, the Bank's number of customers continued to increase healthily.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Team building for sales teams

By introducing a hierarchical management system for corporate customer managers, the Bank promoted the evaluation of customer managers and continuously improved the performance evaluation and target management methodology for customer managers. By means of strict evaluation of, inter alia, the performance, service quality and moral character of customer managers, we initiated dynamic management over customer managers to continuously optimize the customer manager team structure. Moreover, the Bank established and improved the comprehensive training system for customer managers and built the capacity of customer managers to improve the service quality and marketing skills of customer managers. The access and exit mechanism was rigorously enforced and a reasonable remuneration system was set up to stimulate the positive work attitude of customer managers, thereby building a professional corporate customer manager team that is highly energetic and service oriented with strong professional ethics. By consistently improving the management system of corporate customer managers, the Bank facilitated the continuous steady development of our businesses.

9.2 Financial services for commercial sectors

The Bank places its development focus on “financial services for commercial sectors” as one of the “three featured businesses” of the Bank and is committed to becoming a benchmark bank in the field of financial services for commercial sectors of the PRC. In addition to the customization of products with reference to the characteristics of different types of customers, the Bank currently has formed a complete commerce and logistics system and built a financial products supply chain system, which includes domestic trade financing, international trade financing, foreign currency investment and foreign exchange transaction (including foreign exchange derivatives), and built a logistics financial product system consisting of 4 categories composed of 15 subproducts, e.g. “Baofu Pay (保付通)” product for less-than-truckload (“**LTL**”) logistics, “Full-circulation Pay (全流通)” product for bulk logistics, “RY Tong (融易通)” product for production logistics, “Grain Trade Connect (易糧通)”, “Cotton Trade Connect (易棉通)”, “Coal Trade Connect (易煤通)” and other products for modern integrated logistics, and “Standard Warehouse Receipt (標準倉單)”, “Non-standard Warehouse Receipt (非標倉單)” and other products for commodity exchanges.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2017, the Bank continued to promote the construction of commerce and logistics banking. Firstly, structural reform was completed and the management system and business process were streamlined. In the optimization of business lines management structure, duties and business process, the Bank changed the name of “trade finance department” into “transaction banking department I”, established the “transaction banking department II” and set up a “strategic customer center” under the business department. In addition, a “risk review center” and “business support center” were set up in the corporate business department. Therefore, the Bank has built a management structure consisting of “three departments and two centers” and an effective working mechanism. Secondly, differentiated marketing was conducted based on studying existing customers. After streamlining, the Bank divided its more than 220,000 corporate customers into four categories and implemented diverged marketing to gradually optimize the existing customer structure of the Bank. Thirdly, the development focus was placed on key customers to swiftly achieve results. The Bank innovated the customer management model, prepared marketing manuals for the six big industries and a cross-selling plan, and established the mechanism of differentiated pricing for strategic customers. By leveraging on strategic customer centers, the Bank centralized advantageous resources to win key customers including central enterprises and listed companies, optimized the deposit structure and placed emphasis on low cost liabilities to enhance the proportion of low cost liabilities. Fourthly, while focusing on the six big industries, the proportion of the business of providing financial services for the commercial sector was increased. With an emphasis placed on the six big industries of “transportation and logistics”, “commerce and high-end consumption”, “food and agriculture”, “advanced manufacturing”, “healthcare” and “government enterprises” centering on commerce and logistics, the Bank designed all-rounded solutions for the upstream and downstream of industry and enterprise, transaction counterparties and partners. Fifthly, the Bank built benchmark banks for commerce and logistics. 25 branches of the Bank were selected as the focus of construction of benchmark banks for commerce and logistics. As at the end of 2017, the average daily deposits of 25 branches increased by RMB22.6 billion, the balance of transaction banking of benchmark banks increased by RMB16 billion, and the amount of key products of investment banking accumulatively launched was RMB41.5 billion. The revenue from key customers increased by RMB1.8 billion, representing an increase of 59%. The number of customers increased by 416 according to sand table simulation and strategic customers increased by 43. The expected objectives have been basically achieved. Sixthly, scientific and technological support was intensified to promote system construction. Fund deposit and management, P2P fund deposit and management, cloud financing, bank-corporate direct connection, and other systems were launched. The Bank developed the corporate settlement card product, integrated corporate Internet banking and cash management functions, and proactively promoted the service business registration of private investment fund to promote the implementation of online supply chain business for core enterprises.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As at the end of 2017, the balance of commerce and logistics loans amounted to RMB41,182 million, accounting for 33.09% of the loan balance of the Bank. Commerce and logistics banking has already become an important growth driver for the Bank's development.

9.3 Personal Banking Business

9.3.1 *Personal deposits*

As a local financial institution in Zhengzhou, the Bank adhered to its unique positioning as a “boutique bank for residents” with local residents as its core. Focusing on the main business theme of serving personal customers, the Bank continuously enriched the variety of products and services, deepened the integration of retail products and services with its channels, enhanced comprehensive service quality, improved the comprehensive service capability of the team, integrated consumer finance and wealth management with refined management of individual customers, and continuously improved the quality of its financial services closely related to local residents. The Bank also strived to enhance the quality of business development and the influence of our quality to constantly motivate the development of our personal deposit business. Meanwhile, the Bank also actively responded to the interest rate liberalisation, constantly optimized the pricing strategy of the deposit interest rate on the basis of market and customer demands, and improved the ability of deposit self-pricing and risk management. As at December 31, 2017, the Bank's total personal deposits amounted to RMB67,663 million, representing an increase of RMB6,738 million or 11.08% from the end of the previous year. The Bank's personal deposit business was ranked the top among its regional peers in terms of total balance, increment and market share.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.3.2 Personal loans

During the Reporting Period, the Bank vigorously developed personal consumption loans. Firstly, the Bank persisted in the development of product standardisation. After many rounds of system streamlining and information standardization, Senior Loans (優先貸), Installment Auto Loans (汽車分期貸款), Residential Mortgage Loans (住房按揭貸款), Pledge of House for Loans (房抵貸) and other services have been gradually launched in the Credit Workshop (信貸工廠). Secondly, the Bank incorporated a new loan model for judicial auction of housing which is a channel for the court to dispose of assets. The Bank provides mortgage loans to the borrower to relieve the repayment pressure and the borrower can directly contact the Bank according to the information of housing for judicial auction. Thirdly, Senior Loans (優先貸) were launched online. In the project, the offline process was converted into a completely online process in which customer application and release of loans are completed online, greatly enhancing customers' user experience and convenience. As at December 31, 2017, the balance of the Bank's personal loans amounted to RMB34,113 million, representing an increase of RMB9,298 million or 37.47% from the beginning of the year.

9.3.3 Bank cards

In addition to the basic version of debit cards such as "Shangding Card (商鼎卡)", the Bank also issued special themed cards such as "Xinxiang Bus One-Card (新鄉公交一卡通)", "Xuchang Bus One-Card (許昌公交一卡通)" and "Zodiac Card for the Year of the Dog (狗年生肖卡)" in 2017, with a steady growth of new cards issued. As at December 31, 2017, the Bank had issued a total of 4,555,700 debit cards, with 565,300 new cards issued as compared with December 31, 2016.

The Bank launched its first Shangding credit card in October 2014, and launched the Shangding series joint name credit card named "Yuche Card (豫車卡)" in August 2016. As at December 31, 2017, a total of 121,999 Shangding credit cards (including 9,310 Yuche Cards) have been issued with aggregate transaction amount and aggregate operation revenue amounting to RMB18.903 billion (2017: RMB9.002 billion) and RMB114 million (2017: RMB67 million), respectively.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.4 Financial services for small and micro enterprises

In 2017, centering on the task of “laying a foundation, stabilizing development, controlling risk and improving quality”, the Bank continued to explore and improve new approaches and new methods of financial services for small and micro enterprises, made use of the internet and big data to improve the convenience of financial services for small and micro enterprises in respect of method of funding, and expanded the coverage of financial services for small and micro enterprises in terms of product innovation to stably develop financial services for small and micro enterprises.

During the Reporting Period, the Bank achieved a major breakthrough in respect of financial services for small and micro enterprises. Firstly, the Bank’s personal car rental loan business was granted the award of “2017 Best Financial Innovation Banking for Vehicles” at the fourth Anxiang International Auto Finance Forum. Secondly, the Bank cooperated with Tencent in the development of Micro Happy Installment (微樂分), created a new model for the Bank’s internet-based financial services for small and micro enterprises and also opened the cooperation channel with the largest internet-based social networking service company in the PRC. Thirdly, the Bank completed the construction of intensive management and projects for financial services for small and micro enterprises. The system adheres to “product management” as the core and data as the driving force. The construction of 2 models and transformation of 4 systems ensures the realization of the asset management objectives of financial services for small and micro enterprises. Fourthly, the Bank obtained a risk compensation fund of RMB41.98 million in 2016.

During the Reporting Period, the Bank’s small business financial service centre was separated from the Financial Department of Small Business as a branch level operating institution to be responsible for the operation management of 12 small and micro business branch centres in downtown Zhengzhou. The small business financial service centre implemented “independent accounting”, really achieved “closed operation, independent management and independent assessment” and established an efficient, independent and flexible market-oriented management mechanism to maximize the benefits of financial services for small and micro enterprises. As at December 31, 2017, the balance of loans to small and micro enterprises amounted to RMB68.529 billion, representing an increase of RMB9.505 billion or 16.10% from the beginning of the year, the number of small and micro corporate loan customers of the Bank was 35,251, representing an increase of 15,576 as compared with the same period of the previous year, and the success rate of loan application by small and micro enterprises was 93.68%, representing a year-on-year increase of 2.08 percentage points. As such, the Bank has successfully met with the regulatory requirements of the “Three Minimum Thresholds”.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

During the Reporting Period, the Bank proactively conducted innovation for financial products for small and micro enterprises. Firstly, the system for management of products for small and micro enterprises was further refined. Oriented at the transformation and development of credit services for small and micro enterprises, the Bank targeted standardized product design and based on product attributes and risk preferences, divided the credit products for small and micro enterprises into five product systems, i.e., supply chain finance, platform finance, real estate finance, automobile finance and policy finance. Secondly, the Bank launched five new products, i.e., Micro Happy Installment (微樂分), Car Rental Loan (租車貸), QianBaocar (錢包好車), Micro Fast Loan (微秒貸) and Easy Loan (隨心貸). As at December 31, 2017, the scale and balance of Micro Happy Installment (微樂分) business amounted to RMB2.479 billion and RMB1.2 billion, respectively; the scale and balance of QianBaocar (錢包好車) business amounted to RMB629 million and RMB616 million, respectively, and the scale and balance of Easy Loan (隨心貸) amounted to RMB180 million and RMB150 million, respectively.

During the Reporting Period, the risks involved with the business of financial services for small and micro enterprises of the Bank were controllable on the whole. Firstly, the Bank introduced a Credit Workshop (信貸工廠) project and mobile platform workstation and implemented a standardized approval process to reduce risks caused by people. Secondly, the Bank advanced the construction of asset management platform to improve the efficiency of asset management. Thirdly, secret inquiries were conducted with customers to improve the process and form of informing customers and prevent partners from using information asymmetry to fraudulently apply for loans with someone else's name or retain loan funds. Fourthly, the double recording system was optimized to ensure effective verification of customer identity before entering into contracts and keep records thereof. Fifthly, the rating process was optimized. Sixthly, the Bank intensified management of overdue loans to categorize and classify customers and prepared green, yellow, red and black management lists of names. Seventhly, the Bank strengthened management and control of loans with debit interest and overdue loans. In 2017, the Bank collected and disposed 3,744 risk assets of RMB3.545 billion, recovered NPLs of RMB583 million and collected interest of RMB726 million.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.5 Treasury Business

9.5.1 Money market transactions

During the Reporting Period, driven by the recovered overseas market demand, joint efforts of new and old driving forces, advancement of structural reforms on the supply side and other factors, the Chinese economy improved remarkably and the overall characteristics of “three progresses and two stabilizations” emerged, i.e., stable growth, accelerated structural adjustment, obviously improved benefits; stabilization of employment, stabilization of commodity prices. In the context of overall economic improvement, the amount of non-performing assets increased slowly. Meanwhile, new changes such as a higher interest rate level and decreased bond issuance also took place. Since the end of March 2017, financial regulatory institutions including the CBRC and the CIRC have continuously issued documents to implement deleveraging policies in the finance industry and require the special treatment of the “three violations”, the “three forms of arbitrage” and the “four improper behaviors” with the focus of supervision in 2017 being interbank business, financial services and investment business. The Central Bank, the CBRC and the CIRC further clarified the concept and policy of “deleveraging, risk prevention and arbitrage control” in financial regulation. Meanwhile, affected by lower global liquidity, steady and tighter monetary policies and strengthened financial regulation brought forth by the increase in interest rate by the U.S. Federal Reserve Board, the overall liquidity of China’s financial system was in a tight balance.

The Bank proactively responded to and implemented various regulatory measures of the regulatory authorities. While conducting compliant development of business, the Bank adopted a number of measures simultaneously and combined the old model with the new one to further expand the customer base of interbank business: through organizing interbank conferences and interbank strategic alliance as well as visits, the Bank continually enhanced communication and cooperation with other banks to further improve the stickiness of interbank business and stability of monetary circulation; in addition, the Bank reinforced training of business and marketing skills of its branches and expanded the Bank’s debt financing channel; and the filing of interbank certificates of deposit was completed in advance, laying a foundation for issuance. The Bank proactively grasped market opportunities to improve profitability while ensuring liquidity. As at December

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

31, 2017, the total balance of the Bank's deposits and placements with banks and other financial institutions and financial assets held under resale agreements amounted to RMB24,429 million, representing 5.61% of the Bank's total assets; and the total balance of the Bank's deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to RMB65,368 million, accounting for 16.24% of the Bank's total liabilities.

9.5.2 Investment in securities and other financial assets

During the Reporting Period, the Bank closely monitored changes in the economic environment and capital market, strengthened the research and trend analysis of changes in the capital market, external regulatory policies and macroeconomic environment, promptly adjusted the direction of capital investment and the business development strategy, captured suitable business opportunities and tried its best to increase the interest margin of capital investment while maintaining risk control. At the same time, the Bank increased the capital available for investment by continually enriching and timely adjusting ways of accepting various types of deposits, and increased available funds by continually enriching the variety of investment business and strengthening research into innovative business to increase its capital utilisation efficiency. As at December 31, 2017, the total investment bonds, investment products under trust schemes, investment products managed by securities companies and other securities financial assets of the Bank amounted to RMB223,306 million, representing an increase of RMB39,650 million or 21.59% as compared with the end of the previous year. Specifically, the total amount of the Bank's bond investments was RMB64,219 million, representing a year-on-year increase of 7.85%, and the total amount of the Bank's investment products under trust schemes and investment products managed by securities companies was RMB132,316 million, representing a year-on-year decrease of 35.19%.

9.5.3 Wealth management business

As at December 31, 2017, the Bank had 259 ongoing wealth management products with a size of RMB49.399 billion. In 2017, the daily average size of ongoing wealth management products amounted to RMB54.77 billion, representing an increase of RMB17.47 billion or 46.84% as compared with that at the beginning of the year. During the Reporting Period, the Bank smoothly operated seven series of conventional wealth management products, "Dingcheng (鼎誠)", "Jujin (聚金)", "Jucan (聚財)", "Yueyueying (月月盈)", "Zhouzhouying (周周盈)", "Jijiyang (季季盈)" and "Juying (聚贏)" and three exclusive series of tailored wealth management products, "Chang Xiang (暢享)", "Juxin (聚鑫)" and "Tonghui (同惠)", among

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

which, “Zhouzhouying (周周盈)”, “Yueyueying (月月盈)” and “Jijiying (季季盈)” are open-end and non net-worth wealth management products issued through counters by the Bank in the first half of 2017, and “Juying (聚赢)” is a high net-worth wealth management product mainly launched in the second half of the year and the open-end high net-worth products are the main star innovative products of the Bank in 2017. In 2017, the Bank issued a total of 474 wealth management products with accumulated proceeds of RMB95.955 billion; on average, the Bank issued 39.5 wealth management products with accumulated proceeds of RMB7.996 billion per month. The number of issued products and the gross proceeds recorded a year-on-year increase of 38.60% and 15.13%, respectively.

9.6 Distribution Channels

9.6.1 Physical outlets

During the Reporting Period, the Bank has established its head office in Zhengzhou and twelve branches in Nanyang, Xinxiang, Luoyang, Anyang, Xuchang, Shangqiu, Luohe, Xinyang, Puyang, Pingdingshan, Zhumadian and Kaifeng were granted approvals to commence operation. As at December 31, 2017, a total of 153 sub-branches and one specialized section were established within Henan Province of the PRC. The Bank operates mainly in Henan Province of the PRC.

As at December 31, 2017, the Bank had a total of 153 intra-branch self-service facilities, including 78 banks in Zhengzhou, 11 branches and 64 county outlets. The Bank also had a total of 161 extra-branch self-service facilities in Henan Province, including 86 in Zhengzhou and 75 in the counties where we have branches. The Bank’s network of self-service outlets also covered other counties, including Nanyang, Xinxiang, Luoyang, Zhongmu, Dengfeng, Xinmi and Xinzheng.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.6.2 Electronic banking

Self-service banking

The Bank's self-service banking infrastructure covers automatic teller machines, automatic cash withdrawal and deposit machines, smart counters, online banking terminals, easy payment terminals, "QuikTrans (快窗)" and "Yintietong (銀鐵通)" units, with an aim to provide customers with a wide range of services ranging from cash withdrawal and deposit, account inquiry, bill payment, PIN change, fund transfer and train ticket purchase with a higher efficiency. Adhering to our customer-oriented strategy, we have been developing and upgrading our self-service banking facilities with new functions, while the growing smart counter business resulted in better customer flow management and reduced the burden at the frontline. As at December 31, 2017, we had 1,461 self-service banking facilities, including 360 automatic teller machines, 401 automatic cash withdrawal and deposit machines, 256 smart counters, 273 online banking terminals, 170 easy payment terminals and 1 "QuikTrans" teller. The total number of cash withdrawal and deposit transactions amounted to 10,290,000, representing a year-on-year decrease of 9.5%, while the cash withdrawal and deposit transaction amount totaled RMB20.3 billion, representing a year-on-year increase of 4.1%.

Online banking

Our online banking service was introduced to the market in October 2010. In 2017, our online banking segment registered 292,700 new accounts, representing a year-on-year increase of 79.68%, among which 287,200 were new personal accounts and 5,600 were new corporate accounts. The number of transfer transactions reached 4,188,800, representing a year-on-year increase of 3.63%, while the transaction amount totaled RMB572.648 billion, representing a year-on-year increase of 59.74%. As at the end of December 2017, the total number of online banking accounts reached 728,600, among which 704,100 were personal accounts and 24,400 were corporate accounts.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Mobile banking

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

In 2017, our mobile banking segment registered 313,300 new accounts, representing a year-on-year increase of 33.66%, while the number and amount of transactions amounted to 2,962,300 and RMB55.441 billion respectively, representing year-on-year increases of 91.80% and 243.67% respectively. As at December 31, 2017, the total number of mobile banking accounts reached 756,200 while the aggregate number and amount of transactions amounted to 5,672,200 and RMB75.776 billion respectively.

Online payment

Our online payment platform was introduced to the market in July 2012. In 2017, 1,768,600 new users registered on our platform, representing a year-on-year decrease of 34.19%, while the number and amount of transactions amounted to 22,987,100 and RMB10 billion respectively, representing a year-on-year increases of 286.77% and 217.97%, respectively. As at December 31, 2017, the total number of users on our online payment platform reached 4,669,700 while the aggregate number and amount of transactions amounted to 33,701,700 and RMB14.366 billion respectively.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As at December 31, 2017, the Bank's online payment service has covered the mainstream payment methods such as Alipay, Tenpay, Baifubao, Chinabank payments of JD.com and Yifubao (易付寶), which provided diversified payment methods for the Bank's cards as well as enhanced customer's payment experience.

Telephone banking

We offer telephone banking services to our customers 24 hours a day, seven days a week through the nation-wide customer service hotline 4000-967585. Our services include account inquiries, loss reporting, bill payment, loan business, investment and wealth management, PIN services, credit card business, customer service inquiries and outbound calls. The customer service centre continued to enhance user experience and actively expand the business scope based on the customers' needs. In 2017, our telephone banking service department handled a total of 2,727,300 cases.

WeChat Banking

Since the launch of the Bank's WeChat Banking on October 25, 2013, the Bank's WeChat Banking business has recorded a total of 485,700 followers as at December 31, 2017. WeChat Banking provides customers with extensive online functions, including individual account balance inquiry service, transaction details inquiry, free account alerts, credit card inquiry and online application, online application for personal loans and available products inquiry, branches inquiry and reservation, form pre-filling services and union card area. Every week at a set time we release information on our new businesses and new functions as well as promotion activities via our WeChat Banking, aiming to show the recent business dynamics of the Bank to our WeChat Banking customers.

Ding Rong Yi

The Bank's internet financial service platform "Ding Rong Yi (鼎融易)" focuses on providing "Internet plus citizen services, trade and logistics, and financial services to medium, small and micro-sized enterprises". It provides online account opening, online financial management, convenient payment, E-commerce service, order matching, online transactions, logistics and distribution, warehousing management and other diversified service features. It is a comprehensive Internet financial service platform covering financial, utilities and social networking services. As at December 31, 2017, the total number of registered Ding Rong Yi accounts registers reached 303,900, with an aggregate number of transactions of 709,900 and total transaction amount of RMB34.721 billion.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.7 Operations of Subsidiaries

9.7.1 Operations of subsidiaries

Henan Jiuding Financial Leasing Co., Ltd.

As at the end of the Reporting Period, the Bank held a 51% equity interest in Jiuding Financial Leasing Company, a subsidiary of the Bank with a registered capital of RMB2 billion. The approval for change in the registered capital of Jiuding Financial Leasing Company was granted by the CBRC Henan Office on July 7, 2017, and the corresponding change in the registered information with the relevant industry and commerce administrative authorities was completed on November 1, 2017. Jiuding Financial Leasing Company was established and carries on business in China, its principal businesses include: (1) financial leasing business; (2) outward or inward transfer of financial leasing assets; (3) fixed income securities investment business; (4) acceptance of leasing deposits from lessees; (5) acceptance of fixed deposits with maturity of 3 months or above from non-bank Shareholders; (6) interbank borrowings; (7) borrowings from financial institutions; (8) offshore borrowings; (9) leasing asset sale and disposal business; (10) economic consultancy; (11) other businesses approved by the CBRC (Items which require approvals under the law shall be subject to the approval from relevant departments before the commencement of business).

Jiuding Financial Leasing Company has always upheld the business philosophy of “innovative, efficient, synergistic and stable operations”, and adhered to the strategic positioning of “intensively developing in Zhengzhou, consolidating its position in Henan, penetrating to other regions in the PRC, focusing on specialization and featured businesses”. As at the end of 2017, the total assets of Jiuding Financial Leasing Company amounted to RMB11.183 billion, balance of financial leasing amounted to RMB11.014 billion and net profit amounted to RMB113 million, respectively.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Fugou Zhengyin County Bank Co., Ltd.

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

Fugou Zhengyin County Bank has a short decision-making chain, flexible credit policy, and the capability to adapt its operation process to match the financial needs of the agricultural industry. As at the end of 2017, the bank had accumulated total assets of RMB506 million, total loans of RMB293 million, total deposits of RMB329 million and net profit of RMB1.93 million and the NPL ratio was zero. Its major indicators were in compliance with the regulatory requirements.

Xinmi Zhengyin County Bank Co., Ltd.

As at the end of the Reporting Period, the Bank held a 51.2% equity interest in Xinmi Zhengyin County Bank Co., Ltd. (“**Xinmi Zhengyin County Bank**”), a subsidiary of the Bank with a registered capital of RMB125 million. Xinmi Zhengyin County Bank made a private placement of 25 million shares to the Bank and Xinmi Caihui Agricultural Development Co., Ltd. (新密財惠農業開發有限公司) and completed the change in its registered information with the relevant industry and commerce administrative authority on December 20, 2017. Xinmi Zhengyin County Bank was established and carries on business in China, its principal businesses include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) interbank borrowings; (6) bank card business; (7) acting as the issuing agent, cashing agent and the underwriter of government bonds; (8) collecting and payment agent and insurance agent; and (9) other businesses approved by the banking regulatory authorities in the PRC (Items which require approvals under the law shall be subject to the approval from relevant departments before the commencement of business).

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Xinmi Zhengyin County Bank upholds the service aims of “serving Xinmi, the three rural sectors (三農) and small and micro businesses”. As at the end of 2017, Xinmi Zhengyin County Bank had accumulated total assets of RMB682 million, total loans of RMB440 million, total deposits of RMB524 million, an NPL ratio of 3.63% and net profit of RMB1.13 million. All of its major indicators were in compliance with the regulatory requirements.

Xunxian Zhengyin County Bank Co., Ltd.

As at the end of the Reporting Period, the Bank held a 51% equity interest in Xunxian Zhengyin County Bank Co., Ltd. (“**Xunxian Zhengyin County Bank**”), a subsidiary of the Bank with a registered capital of RMB50 million. The establishment of Xunxian Zhengyin County Bank was approved by the CBRC Henan Office on October 19, 2017. The operation approval for the Xunxian Zhengyin County Bank was granted by Hebi Branch of the CBRC Henan Office on November 1, 2017. The Xunxian Zhengyin County Bank has officially been in operation since November 16, 2017. Xunxian Zhengyin County Bank was established and carries on business in China, its principal businesses include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) acting as the issuing agent, cashing agent and the underwriter of government bonds; (6) interbank borrowings; (7) debit-card business; (8) collecting and payment agent and insurance agent; and (9) other businesses approved by the banking regulatory authorities in the PRC (Items which require approvals shall be subject to the approval from relevant departments before the commencement of business).

Xunxian Zhengyin County Bank upholds the service aims of “joining hands with the public, serving the three rural sectors (三農), establishing a rural foothold and delivering benefit to rural areas and support to small businesses”. As at the end of 2017, Xunxian Zhengyin County Bank had accumulated total assets of RMB70,319,200 and total deposits of RMB21,577,800. All of its major indicators were in compliance with the regulatory requirements.

Queshan Zhengyin County Bank Co., Ltd.

As at the end of the Reporting Period, the Bank held a 51% equity interest in Queshan Zhengyin County Bank Co., Ltd. (“**Queshan Zhengyin County Bank**”), a subsidiary of the Bank with a registered capital of RMB50 million. The establishment of Queshan Zhengyin County Bank was approved by the CBRC Henan Office on October 19, 2017. The operation approval for the Queshan Zhengyin County Bank was granted by Zhumadian Branch of the CBRC Henan Office on November 10, 2017. The Queshan Zhengyin County Bank has officially been in operation since November 28, 2017. Queshan Zhengyin County Bank

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

was established and carries on business in China, its principal businesses include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) interbank borrowings; (6) bank card business; (7) acting as the issuing agent, cashing agent and the underwriter of government bonds; (8) collecting and payment agent and insurance agent; and (9) other businesses approved by the banking regulatory authorities in the PRC.

Queshan Zhengyin County Bank adheres to the service aims of “serving Queshan, the three rural sectors (三農) and small and medium businesses”. As at the end of 2017, Queshan Zhengyin County Bank had accumulated total assets of RMB77,142,500 and total deposits of RMB31,162,300. All of its major indicators were in compliance with the regulatory requirements.

9.7.2 Operations of investee companies

As at the end of the Reporting Period, the Bank held 18.53%, 30.00% and 25.00% equity interests in Zhongmu Zhengyin County Bank Co., Ltd. (“**Zhongmu Zhengyin County Bank**”), Yanling Zhengyin County Bank and Xinzheng Zhengyin County Bank Co., Ltd., respectively. The three county banks were established and carry on business in China, the total asset value of the three county banks reached RMB18.941 billion, total deposits reached RMB17.338 billion and total loans reached RMB9.963 billion.

Since the establishment of Zhongmu Zhengyin County Bank in 2009, Zhongmu Zhengyin County Bank has always been committed to providing services to the three rural sectors (三農) with a market position targeting small- and medium-size customers. Led by the gradual expansion of the asset size, a more balanced structure of deposits and loans and stronger support for the agriculture sector, the return on equity has improved every year. Therefore, Zhongmu Zhengyin County Bank is regarded as one of the leading industry players among all county banks in the country in terms of comprehensive strength.

9.8 Risk Management

During the Reporting Period, the Bank further improved its top-level design and transmission mechanism of risk governance. In 2017, in accordance with the annual risk preference framework of the Bank, we had set up 36 index limits for four major risks, namely credit risk, market risk, liquidity risk and concentration risk. We also sped up the coordination and planning for the establishment of relevant risk systems and put emphasis on the development of tools and professional talents in key risks to continuously enhance our overall risk management capabilities.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.8.1 Credit risk

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

We have built a credit risk management infrastructure to cover our entire credit business processes, a unified authorisation and credit extension management system for the whole bank with established policies and procedures to identify, assess, measure, monitor, mitigate and control credit risks. We improved our overall credit risk management capabilities through adopting the following measures: (i) improving credit risk monitoring and warning system step-by-step to realize timely warning and classification adjustments to loans with growing risks or other conditions which may give rise to a change of its risk classification; (ii) being more prudent in risk classification by having the internal audit department specialise in the review of loan classification; (iii) putting on and off balance sheet businesses such as loan extension, trade finance, accepting and discounting of bills as well as the provision of letters of credit under a single credit approval system and setting clear standards for the basic conditions, debt ratio and credit rating for the customers applying for credit facilities to achieve effective control of credit risks; (iv) starting to build a risk limit model which determines the risk limits by assessing the clients' solvency status while also taking its actual financing needs and risk tolerance into consideration to perfect the credit risk limit system; (v) establishing Zhengzhou Regional Approval Management Center to manage the independent credit approval officers in all tier-one branches in a centralized way to enhance approval quality and efficiency.

9.8.2 Market risk

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

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

Market risk associated with banking book

1. Interest rate risk

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

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

2. Exchange rate risk

Exchange rate risk refers to the risk arising from the time and regional differences in exchange rate fluctuations as well as the mismatch between currency and maturity mix. We are exposed to exchange rate risk primarily through trading risk and conversion risk. Trading risk refers to the risk of loss caused to the Bank due to exchange rate fluctuations when customers are carrying out spot or forward foreign exchange trading, lending, investment and exchange activities. Conversion risk refers to foreign exchange gains and losses due to exchange rate fluctuations when assets and liabilities in foreign currencies in the Bank's balance sheet are converted into Renminbi at the end of an accounting period. After being approved to deal in derivatives, we tried to use foreign exchange market instruments like forwards, futures and options to hedge and mitigate exchange rate risks.

Market risk associated with trading book

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

9.8.3 Operational risk

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

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Bank continuously promotes the construction of operational risk management system, improves three operational risk tools and capital measurement. We have established a sound operational risk reporting system to submit reports to the Board, the Board of Supervisors and senior management on a timely basis. Operational risk inspections are conducted to prevent risk hazards and significant operational risks in key areas. Firstly, external databases were introduced to help us keep abreast of the latest laws, regulations and regulatory requirements, and to revise and improve the relevant rules and regulations of the Bank accordingly. Secondly, post-event evaluation on the systems was carried out actively to ensure that revisions could be timely proposed to relevant departments for system defects like absence of adequate systems or hidden dangers in the processes. Thirdly, the authorization management system was improved, the daily supervision of authorization was strengthened and the guiding role of authorization to the business was also strengthened by downsizing existing businesses requiring authorization, controlling the total amount of new additions to the list and specifying the mortgage rates for businesses requiring authorization. Fourthly, the setting-up of a long-term mechanism for case prevention was continuously promoted, case prevention self-assessments and case-related risk inspections were carried out to achieve effective case prevention.

9.8.4 Liquidity risk

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

Our organisational structure for liquidity risk management is formed on the basis of separation of the responsibilities for the formulation, implementation and supervision of liquidity risk management policies and procedures. The Board bears the ultimate responsibility for our liquidity risk management. The Risk Management Committee under the Board is responsible for approving the liquidity risk management policies and strategies developed by the senior management. The Asset and Liability Management Committee under our senior management is responsible for the management of liquidity risk across

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

the Bank, specifically, responsible for formulating our liquidity management policies and leading the implementation of these policies. The Board of Supervisors is responsible for supervising the Board and senior management in carrying out liquidity risk management on a day-to-day basis. Relevant departments, such as the finance and accounting department, the financial markets department, the interbank department and the asset management department, are responsible for liquidity risk management on a day-to-day basis.

We manage our liquidity risk mainly through monitoring the maturities of our assets and liabilities and continuously increasing our efforts to improve our liquidity risk management. We have implemented the heightened regulatory requirements through closely monitoring various liquidity ratios, formulating contingency plans and strengthening liquidity risk management and stress tests. At present, we have improved: (i) the ability to deal with liquidity risk by formulating contingency plans and emergency drill plans and continuously improving them; (ii) the mechanism on position management by introducing the Position Management Measures of Bank of Zhengzhou to make position management more forward-looking and more specific; and (iii) the liquidity risk management capabilities through diagnosis of the liquidity management systems of the Group and its subsidiaries.

9.8.5 Information technology risk

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

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

In 2017, the Bank further defined day-to-day business continuity and the emergency organization framework by setting up a leading group of the Bank responsible for emergencies, a business continuity management committee and a leading group for emergencies for our branches, and formulating and issuing the Plans for Business Continuity and the Overall Emergency Plan for Business Continuity. 15 business and information technology emergency plans were prepared for the year.

9.8.6 Reputational risk

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

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

9.8.7 Implementation of the New Basel Capital Accord

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

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

1 CHANGES IN THE ORDINARY SHARES

	December 31, 2016		Changes during the Reporting Period	December 31, 2017	
	Number (Shares)	Proportion (%)	Number (Shares)	Number (Shares)	Proportion (%)
Domestic Shares	3,803,931,900	71.48	0	3,803,931,900	71.48
Overseas listed foreign Shares (H Shares)	1,518,000,000	28.52	0	1,518,000,000	28.52
Total number of Ordinary Shares	5,321,931,900	100.00	0	5,321,931,900	100.00

2 INFORMATION ON SHAREHOLDERS

2.1 Total number of Shareholders during the Reporting Period

As at December 31, 2017, the Bank had a total of 3,624 holders of Domestic Shares.

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

2.2 Shareholdings of Shareholders

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

As at December 31, 2017, shareholdings of top 10 Shareholders of non-overseas listed Domestic Shares were as follows:

Number	Name of Shareholder	Nature of Shareholder	Number of Shares held at the end of the period (Shares)	Percentage of total number of issued ordinary Shares (%)	Type of Shares	Pledged or frozen (Shares)
1	Zhengzhou Finance Bureau (鄭州市財政局)	State-owned	490,904,755	9.22	Domestic Shares	220,900,000
2	Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房 地產開發有限公司)	Domestic non-state owned legal person	262,000,000	4.92	Domestic Shares	262,000,000
3	Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)	Domestic non-state owned legal person	250,000,000	4.70	Domestic Shares	124,999,990
4	Zhongyuan Trust Co., Ltd. (中原信託有限公 司)	State-owned legal person	239,426,471	4.50	Domestic Shares	–
5	Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司)	Domestic non-state owned legal person	226,000,000	4.25	Domestic Shares	135,600,000
6	Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	State-owned legal person	215,678,764	4.05	Domestic Shares	–
7	Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)	Domestic non-state owned legal person	199,046,474	3.74	Domestic Shares	149,500,000
8	Bridge Trust Co., Ltd. (百瑞信託有限責任公司)	State-owned legal person	114,697,149	2.16	Domestic Shares	–
9	Henan Shengrun Holding Group Co., Ltd. (河南盛潤控股集團有限公司)	Domestic non-state owned legal person	100,000,000	1.88	Domestic Shares	–
10	Henan Masahiro Properties Limited (河南正弘 置業有限公司)	Domestic non-state owned legal person	100,000,000	1.88	Domestic Shares	49,900,000

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

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

Based on the knowledge of the Directors and chief executive of the Bank, as at December 31, 2017, the following persons, other than Directors, Supervisors and chief executive of the Bank, had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Class of Shares	Long/ Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
Zhengzhou Finance Bureau (鄭州市財政局)	Domestic Shares	Long	Beneficial owner Interest of controlled corporation ¹	656,163,737	17.25	12.33
Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司)	Domestic Shares	Long	Beneficial owner	262,000,000	6.89	4.92
Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司)	Domestic Shares	Long	Interest of controlled corporation ²	262,000,000	6.89	4.92
ZHANG Xinya (張欣雅)	Domestic Shares	Long	Interest of controlled corporation ²	262,000,000	6.89	4.92
Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)	Domestic Shares	Long	Beneficial owner	250,000,000	6.57	4.70
Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司)	Domestic Shares	Long	Interest of controlled corporation ³	250,000,000	6.57	4.70
Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司)	Domestic Shares	Long	Interest of controlled corporation ³	250,000,000	6.57	4.70
ZHANG Huiqi (張惠琪)	Domestic Shares	Long	Interest of controlled corporation ³	250,000,000	6.57	4.70
Zhongyuan Trust Co., Ltd. (中原信託有限公司)	Domestic Shares	Long	Beneficial owner	239,426,471	6.29	4.50

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

Name of Substantial Shareholder	Class of Shares	Long/ Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司)	Domestic Shares	Long	Interest of controlled corporation ⁴	239,426,471	6.29	4.50
Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司)	Domestic Shares	Long	Interest of controlled corporation ⁴	239,426,471	6.29	4.50
Henan Investment Group Co., Ltd. (河南投資集團有限公司)	Domestic Shares	Long	Beneficial owner Interest of controlled corporation ⁵	329,195,683	8.65	6.19
Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司)	Domestic Shares	Long	Beneficial owner ⁶	226,000,000	5.94	4.25
DU Liling (杜麗玲)	Domestic Shares	Long	Interest of controlled corporation ⁷	226,000,000	5.94	4.25
WANG Meilan (王梅蘭)	Domestic Shares	Long	Interest of controlled corporation ⁷	226,000,000	5.94	4.25
Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	Domestic Shares	Long	Beneficial owner ⁸	215,678,764	5.67	4.05
Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)	Domestic Shares	Long	Beneficial owner ⁹	199,046,474	5.23	3.74
China Goldjoy Securities Limited	H Shares	Long	Custodian ¹⁰	289,178,000	19.04	5.43
Hong Kong Oriental Sage Limited (香港東智有限公司)	H Shares	Long	Beneficial owner	254,500,000	16.77	4.78
Oriental Sage Limited (東智有限公司)	H Shares	Long	Interest of controlled corporation ¹¹	254,500,000	16.77	4.78
China Goldjoy Credit Limited	H Shares	Long	Person having a security interest ¹²	111,500,000	7.34	2.10
Stellar Result Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹²	111,500,000	7.34	2.10
Goldjoy Holding Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹²	111,500,000	7.34	2.10

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

Name of Substantial Shareholder	Class of Shares	Long/ Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
Great Sphere Developments Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹³	184,302,000	12.14	3.46
China Goldjoy Group Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹⁴	184,302,000	12.14	3.46
Tinmark Development Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹⁴	184,302,000	12.14	3.46
YAO Jianhui (姚建輝)	H Shares	Long	Person having a security interest Interest of controlled corporation ¹⁴	184,302,000	12.14	3.46
Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司)	H Shares	Long	Interest of controlled corporation ¹⁵	129,000,000	8.50	2.42
WEI Lidong (尉立東)	H Shares	Long	Interest of controlled corporation ¹⁵	129,000,000	8.50	2.42
Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司)	H Shares	Long	Beneficial owner	100,000,000	6.59	1.88
Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司)	H Shares	Long	Interest of controlled corporation ¹⁶	100,000,000	6.59	1.88

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

Name of Substantial Shareholder	Class of Shares	Long/ Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
Zhengzhou Airport Zone Xinggang Investment and Development Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司))	H Shares	Long	Interest of controlled corporation ¹⁶	100,000,000	6.59	1.88
Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司)	H Shares	Long	Interest of controlled corporation ¹⁶	100,000,000	6.59	1.88
Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司)	H Shares	Long	Interest of controlled corporation ¹⁶	100,000,000	6.59	1.88
Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司)	H Shares	Long	Interest of controlled corporation ¹⁶	100,000,000	6.59	1.88
Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司)	H Shares	Long	Interest of controlled corporation ¹⁶	100,000,000	6.59	1.88
Zhengzhou Zhongrui Investment Company Limited (鄭州中瑞投資有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司))	H Shares	Long	Interest of controlled corporation ¹⁶	100,000,000	6.59	1.88
WAN Yongxing (萬永興)	H Shares	Long	Interest of controlled corporation ¹⁶	100,000,000	6.59	1.88
Zhengzhou Zhengdong New District Construction Development Investment Co., Ltd. (鄭州市鄭東新區建設開發投資總公司)	H Shares	Long	Beneficial owner ¹⁷	100,000,000	6.59	1.88
Henan Hongbao Group Company Limited (河南鴻寶集團有限公司)	H Shares	Long	Beneficial owner	99,000,000	6.52	1.86

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

Name of Substantial Shareholder	Class of Shares	Long/ Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
YUAN Guibao (袁桂寶)	H Shares	Long	Interest of controlled corporation ¹⁸	99,000,000	6.52	1.86
CITIC Securities Company Limited	H Shares	Long	Interest of controlled corporation ¹⁹	801,195,214		
			Person having a security interest ¹⁹	291,642,193		
				1,092,837,407	71.99	20.53
		Short	Interest of controlled corporation ¹⁹	1,030,854,089	67.91	19.37
Goncius I Limited	H Shares	Long	Beneficial owner ²⁰	115,501,859	7.61	2.17
		Short	Beneficial owner ²⁰	115,501,859	7.61	2.17
BNP PARIBAS SA	H Shares	Long	Beneficial owner ²¹	108,282,992	7.13	2.03
Huarong International Financial Holdings Limited	H Shares	Long	Beneficial owner ²²	90,957,714	5.99	1.71
China Huarong Asset Management Co., Ltd.	H Shares	Long	Interest of controlled corporation ²²	90,957,714	5.99	1.71

Notes:

- 1 These 656,163,737 Shares are directly or indirectly held by Zhengzhou Finance Bureau (鄭州市財政局), including 490,904,755 Shares directly held by Zhengzhou Finance Bureau (鄭州市財政局), 65,258,982 Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), 50,000,000 Shares held by Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and 50,000,000 Shares held by Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司) are directly or indirectly wholly-owned by Zhengzhou Finance Bureau (鄭州市財政局). By virtue of the SFO, Zhengzhou Finance Bureau (鄭州市財政局) is deemed to be interested in the Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). Mr. FAN Yutao (樊玉濤), a non-executive Director, is the deputy director of Zhengzhou Finance Bureau (鄭州市財政局).

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

- 2 Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司) is wholly-owned by Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司), which in turn is owned by Ms. ZHANG Xinya (張欣雅) as to 80%. By virtue of the SFO, both Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司) and ZHANG Xinya (張欣雅) are deemed to be interested in the Shares held by Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司). XU Jingnan (徐靜楠), a non-executive Director and the daughter (aged above 18) of ZHANG Xinya (張欣雅), acts as the vice chairwoman of Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司).
- 3 Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司) is owned by Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司) as to 97.8%. Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司) is in turn owned by Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) and ZHANG Huiqi (張惠琪) as to 90% and 9%, respectively. Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) is owned by ZHANG Huiqi (張惠琪) as to 90%. By virtue of the SFO, Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司), Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) and ZHANG Huiqi (張惠琪) are deemed to be interested in the Shares held by Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司). ZHANG Huiqi (張惠琪) is the daughter, being above the age of 18, of ZHANG Jiangguo (張敬國), a non-executive Director.
- 4 Zhongyuan Trust Co., Ltd. (中原信託有限公司) is owned by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) as to approximately 46.43% and 31.91%, respectively. Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) is owned by Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) as to approximately 45.09%. By virtue of the SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司), Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) and Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) are deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). JI Hongjun (姬宏俊), a non-executive Director, is the vice president of Zhongyuan Trust Co., Ltd. (中原信託有限公司).
- 5 These 329,195,683 Shares are directly or indirectly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司), including 89,769,212 Shares directly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and 239,426,471 Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司) which is owned as to approximately 46.43% by Henan Investment Group Co., Ltd. (河南投資集團有限公司). By virtue of the SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司) is deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司).
- 6 MA Jinwei (馬金偉), a non-executive Director, is the general manager of Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司).

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

- 7 Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司) is owned as to 50% and 50% by DU Liling (杜麗玲) and WANG Meilan (王梅蘭), respectively. By virtue of the SFO, each of DU Liling (杜麗玲) and WANG Meilan (王梅蘭) is deemed to be interested in the Shares held by Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司).
- 8 LIANG Songwei (梁嵩巍), a non-executive Director, is the chairman of Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司).
- 9 Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司) is owned as to 90% by ZHU Zhihui (朱志暉), a Supervisor, and 10% by his spouse, WANG Linhui (王林輝). By virtue of the SFO, ZHU Zhihui (朱志暉) is deemed to be interested in the Shares held by Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司). ZHU Zhihui (朱志暉), a Supervisor, is the chairman of the board of directors of Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司).
- 10 Subsequent to the Reporting Period and up to the Latest Practicable Date, the Shares of the Bank held by China Goldjoy Securities Limited as custodian increased to 543,674,000 shares.
- 11 These 254,500,000 Shares are directly held by Hong Kong Oriental Sage Limited (香港東智有限公司), which is wholly-owned by Oriental Sage Limited (東智有限公司). By virtue of the SFO, Oriental Sage Limited (東智有限公司) is deemed to be interested in the Shares held by Hong Kong Oriental Sage Limited.
- 12 China Goldjoy Credit Limited has a security interest in these 111,500,000 Shares. China Goldjoy Credit Limited is wholly-owned by Stellar Result Limited, which in turn is wholly-owned by Goldjoy Holding Limited. By virtue of the SFO, each of Stellar Result Limited and Goldjoy Holding Limited is deemed to be interested in the Shares held by China Goldjoy Credit Limited.

Subsequent to the Reporting Period and up to the Latest Practicable Date, China Goldjoy Credit Limited's security interest increased from 111,500,000 Shares to 261,500,000 Shares.
- 13 Goldjoy Holding Limited is owned as to 80% by Great Sphere Developments Limited and by virtue of the SFO, Great Sphere Developments Limited is deemed to be interested in the 111,500,000 Shares held by China Goldjoy Credit Limited. In addition, by virtue of the SFO, Great Sphere Developments Limited is also deemed to be interested in 72,802,000 Shares through certain wholly-owned subsidiaries. Therefore, Great Sphere Developments Limited is deemed to be interested in a total of 184,302,000 Shares.
- 14 Great Sphere Developments Limited is wholly-owned by China Goldjoy Group Limited, a company listed on the Hong Kong Stock Exchange, which in turn is owned as to approximately 48.86% by Tinmark Development Limited. Tinmark Development Limited is in turn wholly-owned by YAO Jianhui (姚建輝). By virtue of the SFO, each of China Goldjoy Group Limited, Tinmark Development Limited and YAO Jianhui (姚建輝) is deemed to be interested in the Shares in which Great Sphere Developments Limited is deemed to be interested.

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

- 15 Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司) is owned as to 99.83% by WEI Lidong (尉立東) and Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司) holds a total of 129,000,000 Shares through certain subsidiaries.
- 16 Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司) ("**Hong Kong Xingrui**") is wholly-owned by Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司) ("**Xingrui Industrial**"), being a state-owned company under the Zhengzhou Airport Zone Economic Integrated Experimental Zone (Zhengzhou Xinzheng Integrated Free Trade Zone) Management Committee (鄭州航空港經濟綜合實驗區(鄭州新鄭綜合保稅區)管理委員會), which was formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Management Committee (鄭州新鄭綜合保稅區(鄭州航空港區)管理委員會)). Xingrui Industrial is owned as to 51% and 49% by Zhengzhou Airport Zone Xinggang Investment Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as: Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司) ("**Zhengzhou Xinggang**"), and Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司) ("**Ruimaotong**"). Ruimaotong is wholly-owned by Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司) ("**Jiangsu Jinhe**"), being a company listed on the Shanghai Stock Exchange, which is in turn wholly-owned by Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司) ("**Ruimaotong Supply Chain Management**"). Ruimaotong Supply Chain Management is owned as to 60.76% by Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司) ("**Zhengzhou Ruimaotong**"). Zhengzhou Ruimaotong is wholly-owned by Zhengzhou Zhongrui Investment Company Limited (鄭州中瑞投資有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司)) ("**Zhengzhou Zhongrui**"), which is owned as to 70% by WAN Yongxing (萬永興). By virtue of the SFO, Xingrui Industrial, Zhengzhou Xinggang, Ruimaotong, Jiangsu Jinhe, Ruimaotong Supply Chain Management, Zhengzhou Ruimaotong, Zhengzhou Zhongrui and WAN Yongxing (萬永興) are deemed to be interested in the Shares held by Hong Kong Xingrui.
- 17 Zhengzhou Zhengdong New District Construction Development Investment Co., Ltd. (鄭州市鄭東新區建設開發投資總公司) was established by the Zhengzhou Zhengdong New District Management Committee (鄭州鄭東新區管理委員會).
- 18 Henan Hongbao Group Company Limited (河南鴻寶集團有限公司) is owned by YUAN Guibao (袁桂寶) as to 39%. By virtue of the SFO, YUAN Guibao (袁桂寶) is deemed to be interested in the Shares held by Henan Hongbao Group Company Limited (河南鴻寶集團有限公司).

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

- 19 CITIC Securities Company Limited held 291,642,193 H Shares (long position) of the Bank in the capacity of a person having a security interest and held an aggregate of 801,195,214 H Shares (long position) and 1,030,854,089 H Shares (short position) of the Bank through some of its wholly-owned subsidiaries. In addition, 1,042,837,407 H Shares (long position) and 1,030,854,089 H Shares (short position) involve derivatives in the classes below:

245,874,582 H Shares (long position)	– Convertible instruments (on-exchange transaction)
796,962,825 H Shares (long position) and 1,030,854,089 H Shares (short position)	– Settled in cash (curb trading)

Subsequent to the Reporting Period and up to the Latest Practicable Date, the shares of the Bank held by CITIC Securities Company Limited through some of its subsidiaries changed into 789,645,028 H Shares (long position) and 594,834,572 H Shares (short position), and it ceased to hold any shares of the Bank in the capacity of a person having a security interest.

- 20 The 115,501,859 H Shares (long position) and 115,501,859 H Shares (short position) held by Goncius I Limited involve derivatives in the classes below:

115,501,859 H Shares (long position)	– Convertible instruments (on-exchange transaction)
115,501,859 H Shares (short position)	– Settled in cash (curb trading)

- 21 The 108,282,992 H Shares (long position) held by BNP PARIBAS SA involve derivatives in the class below:

108,282,992 H Shares (long position)	– Convertible instruments (on-exchange transaction)
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CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

- 22 Huarong International Financial Holdings Limited is owned as to 51% by Camellia Pacific Investment Holding Limited. Camellia Pacific Investment Holding Limited is wholly-owned by China Huarong International Holdings Limited. China Huarong International Holdings Limited is owned as to 88.10% and 11.90% by Huarong Real Estate Co., Ltd. (華融置業有限責任公司) and Huarong Zhiyuan Investment & Management Co., Ltd., while Huarong Real Estate Co., Ltd. (華融置業有限責任公司) and Huarong Zhiyuan Investment & Management Co., Ltd. are both wholly-owned by China Huarong Asset Management Co., Ltd. By virtue of the SFO, China Huarong Asset Management Co., Ltd. is deemed to be interested in the Shares held by Huarong International Financial Holdings Limited. Furthermore, such 90,957,714 H Shares (long position) involve derivatives in the class below:

90,957,714 H Shares (long position)

– Others (on-exchange transaction)

Save as disclosed above, as at December 31, 2017, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive of the Bank) having any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

3 HOLDERS WITH 5% OR MORE SHAREHOLDING IN THE BANK

As at the end of the Reporting Period, Zhengzhou Finance Bureau (鄭州市財政局) directly held 490,904,755 Domestic Shares (long position), accounting for 9.22% of the total issued ordinary shares of the Bank. In addition, Zhengzhou Finance Bureau is deemed to be interested in an aggregate of the 165,258,982 Domestic Shares (long position) held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou City Municipal Engineering Corporation Ltd. (鄭州市市政工程總公司). These 656,163,737 Domestic Shares (long position) in total account for 12.33% of the total issued ordinary shares of the Bank.

As at the end of the Reporting Period, Henan Investment Group Co., Ltd. (河南投資集團有限公司) directly held 89,769,212 Domestic Shares (long position) and is deemed to be interested in 239,426,471 Domestic Shares (long position) held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). Such 329,195,683 Domestic Shares (long position) in total account for 6.19% of the total issued ordinary shares of the Bank.

As at the end of the Reporting Period, China Goldjoy Securities Limited (as custodian) held 289,178,000 H Shares (long position), accounting for 5.43% of the total issued ordinary shares of the Bank.

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

As at the end of the Reporting Period, CITIC Securities Company Limited held 291,642,193 H Shares (long position) as a person having a security interest and an aggregate of 1,092,837,407 H Shares (long position) together with 801,195,214 H Shares (long position) held by some of its wholly-owned subsidiaries, accounting for 20.53% of the total issued ordinary shares of the Bank. It also held an aggregate of 1,030,854,089 H Shares (short position) through some of its wholly-owned subsidiaries, accounting for 19.37% of the total issued ordinary shares of the Bank, among which, 1,042,837,407 H Shares (long position) and 1,030,854,089 H Shares (short position) involve derivative instruments.

4 PLEDGE AND FREEZING OF SHARES OF THE BANK

As at the end of the Reporting Period, to the knowledge of the Bank, 1,440,360,979 Shares were subject to pledges (accounting for 27.06% of the total issued ordinary Shares) and 40,598,217 Shares were subject to freezing. No Shares were subject to judicial auction during the Reporting Period.

5 THE ISSUANCE OF OFFSHORE PREFERENCE SHARES

5.1 The issuance and listing of Offshore Preference Shares

In order to further improve the comprehensive competitiveness of the Bank and enhance the capability of sustainable development, the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1.191 billion on October 18, 2017 through a private offering in the overseas market according to the approvals from the CBRC Henan Office (Yu Yin Jian Fu [2017] No. 154) and the CSRC (Zheng Jian Xu Ke [2017] No. 1736). The Offshore Preference Shares (preference share name: ZZBNK 17USDPREF; code: 04613) were listed on the Hong Kong Stock Exchange on October 19, 2017 with a nominal value of RMB100 per share at an offering price of USD20 per share. The total number of shares issued was 59,550,000, all of which were issued and fully paid in US dollars.

Based on the Renminbi central parity rate against the US dollar published by the China Foreign Exchange Trade System on October 18, 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB7,860 million. Pursuant to applicable laws and regulations and approvals from the CBRC, the CSRC and other relevant regulatory authorities, the proceeds raised from the Offshore Preference Shares issuance, after deduction of the issuance expenses, have been fully used to replenish the additional tier 1 capital of the Bank, which is consistent with the specific use disclosed beforehand.

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the announcements of the Bank published on the website of the Hong Kong Stock Exchange and the website of the Bank.

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

5.2 Number of holders of Offshore Preference Shares and particulars of shareholding

As at the end of the Reporting Period, the Bank had one holder of Offshore Preference Shares.

The top ten holders of Offshore Preference Shares (or nominees) of the Bank are set out as follows (the following data were based on the registered holders of the Offshore Preference Shares as at December 31, 2017) :

Name of shareholder	Type of shareholder	Class of share	Changes over the Reporting Period (share)	Shareholdings percentage (%)	Number of shares held (share)	Number of shares held subject to trading moratorium (share)	Number of shares pledged or frozen (share)
The Bank of New York Depository (Nominees) Limited	Overseas legal person	Offshore Preference Shares	59,550,000	100	59,550,000	–	Unknown

Notes:

1. The number of Offshore Preference Shares held by the shareholder was recorded according to the register of holders of the Offshore Preference Shares of the Bank.
2. As the Offshore Preference Shares were issued through a private offering in the overseas market, information of nominees of the allotted investors was recorded on the register of holders of the Offshore Preference Shares.

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

5.3 Profit distribution of the Offshore Preference Shares

The dividend of the Offshore Preference Shares is paid in cash on an annual basis. During the Reporting Period, the issued Offshore Preference Shares were not yet due for dividend distribution, and there was no dividend payment in respect of the Offshore Preference Shares. Announcement on payment of dividend for the Offshore Preference Shares will be published by the Bank separately as and when appropriate.

5.4 Other information on the Offshore Preference Shares

During the Reporting Period, no Offshore Preference Shares have been repurchased, converted into ordinary shares or had their voting rights restored.

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments and Rules on the Differences between Financial Liability and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as International Accounting Standards No. 39 – Financial Instruments: Recognition and Measurement and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing Offshore Preference Shares conform to the requirements as equity instruments, and will be calculated as equity instruments.

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

6 INITIAL PUBLIC OFFERING OF A SHARES

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

The Bank has submitted an application in respect of the A Share Offering, including the A Share prospectus, to the CSRC, and the CSRC accepted the application on December 22, 2016. The A Share prospectus (application proof was submitted on December 19, 2016) has been published on the website of the CSRC at www.csrc.gov.cn and (pursuant to Rule 13.10B of the Listing Rules), the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.zzbank.cn at the same time.

At the 2016 Annual General Meeting of the Bank, a resolution in relation to further extension of the validity period of the plan for A Share Offering was considered and approved. For details, please refer to the circular of the Bank dated April 26, 2017 and the announcements of the Bank dated March 27, 2017 and May 19, 2017, respectively.

In April 2017 and October 2017, the Bank received feedback from the CSRC twice successively and replied in time. During the period, the Bank supplemented and updated the application in respect of the A Share Offering based on the 2016 annual results and the 2017 interim results. As at November 29, 2017, the A Share prospectus of the Bank (application proof was submitted on November 24, 2017) has been made available for review on the CSRC's website at www.csrc.gov.cn for preliminary publication.

The Bank will disclose further details and developments in respect of the A Share Offering as and when appropriate.

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

1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AS AT DECEMBER 31, 2017

Directors

Name	Gender	Date of birth	Position in the Bank	Term of Office
WANG Tianyu (王天宇)	M	March 1966	Chairman, Executive Director	2015.6.18–2018.6.18
SHEN Xueqing (申學清)	M	July 1965	President, Executive Director	2015.6.18–2018.6.18
FENG Tao (馮濤)	M	September 1963	Vice Chairman, Executive Director	2016.8.4–2018.6.18
FAN Yutao (樊玉濤)	M	May 1966	Non-executive Director	2015.9.8–2018.6.18
XU Jingnan (徐靜楠) ¹	F	October 1981	Non-executive Director	2017.10.27–2018.6.18
ZHANG Jingguo (張敬國)	M	July 1963	Non-executive Director	2015.6.18–2018.6.18
JI Hongjun (姬宏俊)	M	June 1963	Non-executive Director	2015.6.18–2018.6.18
MA Jinwei (馬金偉)	M	January 1976	Non-executive Director	2015.9.8–2018.6.18
LIANG Songwei (梁嵩巍)	M	August 1968	Non-executive Director	2015.6.18–2018.6.18
YU Zhanglin (于章林)	M	December 1966	Non-executive Director	2016.8.4–2018.6.18
WANG Shihao (王世豪)	M	April 1950	Independent non-executive Director	2015.6.18–2018.6.18
LI Huaizhen (李懷珍)	M	June 1957	Independent non-executive Director	2015.9.8–2018.6.18
XIE Taifeng (謝太峰)	M	August 1958	Independent non-executive Director	2015.9.8–2018.6.18
WU Ge (吳革)	M	May 1967	Independent non-executive Director	2015.9.8–2018.6.18
CHAN Mei Bo Mabel (陳美寶)	F	November 1971	Independent non-executive Director	2015.9.8–2018.6.18

Note 1: Ms. XU Jingnan was elected as a Non-executive Director of the Bank at the 2016 Annual General Meeting, and her term of office has been effective since October 27, 2017 and will remain effective until the expiry of the term of office of the fifth session of the Board.

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

Supervisors²

Name	Gender	Date of birth	Position in the Bank	Term of Office
ZHAO Lijuan (趙麗娟)	F	September 1962	Chairman of the Board of Supervisors and Shareholder Supervisor	2016.6.17–2018.6.18
ZHU Zhihui (朱志輝)	M	August 1969	Shareholder Supervisor	2015.6.18–2018.6.18
MENG Jun (孟君)	F	November 1971	Shareholder Supervisor	2015.6.18–2018.6.18
TANG Yunwei (湯雲為)	M	November 1944	External Supervisor	2015.6.18–2018.6.18
SONG Ke (宋科)	M	April 1982	External Supervisor	2017.5.19–2018.6.18
DUAN Ping (段萍)	F	April 1966	Employee Supervisor	2015.6.18–2018.6.18
ZHANG Chungge (張春閣)	F	December 1968	Employee Supervisor	2015.6.18–2018.6.18
CUI Huarui (崔華瑞)	F	May 1967	Employee Supervisor	2015.6.18–2018.6.18

Note 2: Mr. SONG Ke was elected as an external Supervisor at the 2016 Annual General Meeting of the Bank, and his term of office became effective from May 19, 2017 until the expiry of the term of office of the fifth session of the Board of Supervisors. The term of office of Mr. Liu Yuhui as an external Supervisor expired on June 24, 2017 and he has ceased to be an external Supervisor. Mr. XU Changsheng conveyed his request to resign from the position as an external Supervisor and he has ceased to be an external Supervisor since November 22, 2017. Therefore, the Bank has 8 Supervisors as at the end of the Reporting Period. As Mr. MA Baojun was elected as an external Supervisor on January 19, 2018, the number of the Bank's Supervisors was increased to 9 again.

Senior Management

Name	Gender	Date of birth	Position in the Bank
SHEN Xueqing (申學清)	M	July 1965	President
XIA Hua (夏華)	M	August 1967	Vice President
GUO Zhibin (郭志彬)	M	October 1968	Vice President
SUN Haigang (孫海剛)	M	August 1977	Assistant to President
ZHANG Wenjian (張文建)	M	June 1965	Assistant to President
MAO Yuezhen (毛月珍)	F	April 1963	Chief Accountant
FU Chunqiao (傅春喬)	M	October 1973	Secretary of the Board of Directors
JIANG Tao (姜濤)	M	April 1972	Chief Information Officer
LI Lei (李磊)	M	August 1973	Assistant to President
ZHANG Houlin (張厚林)	M	June 1976	Assistant to President

2 CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

2.1 Changes of Directors during the Reporting Period

The proposed appointment of Ms. XU Jingnan as a non-executive Director was considered and approved by the Board and was submitted for approval at the 2016 Annual General Meeting of the Bank. For the details of the proposed appointment of Ms. XU Jingnan, please refer to the announcement on proposed appointment of non-executive Director published by the Bank on March 27, 2017. Upon election at the 2016 Annual General Meeting of the Bank, Ms. XU Jingnan was elected as a non-executive Director, and her qualification of directorship was approved by the CBRC Henan Office on October 27, 2017. For the details, please refer to the announcement on approval of the qualification of directorship by the regulatory body published by the Bank on November 1, 2017.

2.2 Changes of Supervisors during the Reporting Period

The proposed appointment of Mr. SONG Ke as an external Supervisor was considered and approved by the Board of Supervisors and was submitted for approval at the 2016 Annual General Meeting of the Bank. For the details of the proposed appointment of Mr. SONG Ke, please refer to the announcement on proposed appointment of Supervisor published by the Bank on April 18, 2017. Upon election at the 2016 Annual General Meeting of the Bank, Mr. SONG Ke was elected as an external Supervisor.

The term of office of Mr. LIU Yuhui as an external Supervisor expired on June 24, 2017, and he has ceased to be an external Supervisor since June 25, 2017. For the details of the expiration of Mr. LIU Yuhui's term as an external Supervisor, please refer to the announcement on change of Supervisor published by the Bank on June 26, 2017.

Mr. XU Changsheng conveyed to the Board of Supervisors his request to resign from the position as an external Supervisor due to being too busy, and he has ceased to be an external Supervisor since November 22, 2017. For the details of the resignation of Mr. XU Changsheng, please refer to the announcement on change of Supervisor published by the Bank on November 22, 2017.

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

2.3 Changes of Supervisors after the Reporting Period

The proposed appointment of Mr. MA Baojun as an external Supervisor was considered and approved by the Board of Supervisors and was submitted for approval at the 2018 first extraordinary general meeting of the Bank. For the details of the proposed appointment of Mr. MA Baojun, please refer to the announcement on change of Supervisor published by the Bank on November 22, 2017. Upon election at the 2018 first extraordinary general meeting of the Bank held on January 19, 2018, Mr. MA Baojun was elected as an external Supervisor.

2.4 Changes of Senior Management during the Reporting Period

Mr. BAI Xiaofeng conveyed to the Board his request to resign from the position as a vice president due to work reallocation, and he has ceased to be a vice president of the Bank since August 26, 2017.

The appointments of Mr. LI Lei and Mr. ZHANG Houlin as assistants to the president were considered and approved by the Board, and their qualifications were approved by the CBRC Henan Office on November 21, 2017.

2.5 Changes of Senior Management after the Reporting Period

As considered and approved at the Board meeting held on January 19, 2018, the Board determined to appoint Mr. SUN Haigang, Mr. ZHANG Wenjian, and Ms. MAO Yuezhen as vice presidents of the Bank, and Ms. WANG Zhaoqi as the chief auditor. The qualifications of Mr. SUN Haigang, Mr. ZHANG Wenjian and Ms. MAO Yuezhen were approved by the CBRC Henan Office on February 28, 2018 and the qualification of Ms. WANG Zhaoqi was approved by the CBRC Henan Office on March 8, 2018.

The qualification of Ms. WANG Yanli (王豔麗) as the chief risk officer of the Bank was approved by the CBRC Henan Office on February 12, 2018.

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

3 BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. WANG Tianyu, aged 51, was appointed as an executive Director of the Bank in February 2012 and appointed as the chairman of the Bank in March 2011, being primarily responsible for the overall operations and strategic management of the Bank. In addition, Mr. WANG served as the president of the Bank from September 2005 to December 2011 and has served as the chairman of Zhongmu Zhengyin County Bank (中牟鄭銀村鎮銀行) since May 2012.

Mr. WANG has nearly 25 years of experience in banking business operations and management. He joined the Bank in August 1996 and had successively served as the president of the Jingwu Road sub-branch and the vice president of the Bank from August 1996 to September 2005. Prior to that, Mr. WANG had served as the deputy director of Henan Province Yugong Urban Credit Cooperatives (河南省豫工城市信用社) from May 1993 to May 1996.

Mr. WANG graduated from Henan Institute of Finance and Economics (河南財經學院) (Henan, China) in June 1988, majoring in public finance, and obtained a bachelor's degree in economics. He obtained a master's degree in business administration from National University of Singapore (Singapore) in June 2006 and an executive master's degree in business administration from Tsinghua University (Beijing, China) in January 2015. He has been attending a program of advanced economics course for further studies (高級經濟學課程進修班) at School of Economics of Huazhong University of Science and Technology (Hubei, China) since July 2015. He has been a senior accountant accredited by the People's Government of Henan Province since December 1998. In addition, Mr. WANG has been a member of the 12th People's Congress of Henan Province (第十二屆河南省人民代表大會) since January 2013 and was awarded the title of "National Model Worker" (全國勞動模範) in April 2015. He was elected as a deputy to the 13th National People's Congress in January 2018.

Mr. SHEN Xueqing, aged 52, was appointed as an executive Director of the Bank in February 2012 and appointed as the president of the Bank in December 2011. He is primarily responsible for the daily operations and management of the Bank.

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

Mr. SHEN has nearly 22 years of experience in banking business operations and management. He joined the Bank in December 2011. Prior to joining the Bank, he held a number of positions in Guangdong Development Bank Co., Ltd. (廣東發展銀行股份有限公司) (currently known as China Guangfa Bank Co., Ltd., 廣發銀行股份有限公司) from June 1996 to November 2011. He had served successively as the deputy manager and the manager of general office, the director of operations department and the assistant to sub-branch president of Huayuan Road sub-branch, Zhengzhou branch from June 1996 to October 2000, the assistant to sub-branch president, the vice president and the president of Dongming Road sub-branch, Zhengzhou branch from October 2000 to July 2004, the general manager of general office and the general manager of No. 3 corporate banking department of Zhengzhou branch from July 2004 to April 2006, the president of Anyang sub-branch from April 2006 to September 2009, and the vice president of Changsha branch from October 2009 to November 2011. Prior to that, he had worked at the Financial and Trade Commission of Pingdingshan City, Henan Province (河南省平頂山市財政貿易委員會) and successively served as staff member, deputy chief and deputy director of the general office from July 1990 to June 1996.

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

Mr. FENG Tao, aged 54, was appointed as an executive Director and the vice chairman of the Bank in June 2016. He is primarily responsible for the operation of the internal audit office of the Board.

Mr. FENG has nearly 37 years of experience in the banking industry. He joined the Bank in June 2016. Prior to that, he had worked in Shangcheng County sub-branch of PBoC from December 1980 to August 1983 and served as the clerk, staff member, deputy chief staff member and chief staff member of PBoC Henan branch from July 1986 to December 1998; chief staff member of bank management department of PBoC Zhengzhou Central Sub-branch from December 1998 to September 2003; he had held several positions in CBRC Henan Office successively from September 2003 to May 2016 and during his tenure, he had served successively as principal staff member of the city commercial banks supervision department, deputy director of the logistics service center, deputy chief of No. 2 state-owned bank supervision department, deputy chief of No. 1 offsite supervision department, researcher of No. 1 offsite supervision department and researcher of state-owned bank supervision department from September 2003 to December 2012, chief of CBRC Jiaozuo Branch from December 2012 to February 2015, and chief of City Commercial Banks Regulatory Department from February 2015 to May 2016.

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

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

Mr. FAN Yutao, aged 51, was appointed as a non-executive Director of the Bank in June 2015. He has served as the deputy director general of Zhengzhou Finance Bureau since February 2016. Prior to that, he had served as the staff member of the budget section of Zhengzhou Finance Bureau from July 1988 to June 1994, the deputy chief of the budget section of Zhengzhou Finance Bureau from June 1994 to April 2002, the chief of budget section of Zhengzhou Finance Bureau from April 2002 to April 2006 and the chief of treasury section of Zhengzhou Finance Bureau from April 2006 to July 2009, and the chief economist of Zhengzhou Finance Bureau between July 2009 and February 2016.

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

Ms. Xu Jingnan, aged 36, was appointed as a non-executive Director of the Bank in May 2017. Ms. XU has served as the vice chairwoman of Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司) since February 2014. Prior to that, she had served as the senior officer of the human resources department of ABC International Holdings Limited from September 2010 to January 2014, and had undertaken intern psychologist work at the special clinic of Peking University Shenzhen Hospital from July 2009 to August 2010, and had served as human resources management specialist at the human resources department of the headquarters of The Hong Kong and Shanghai Banking Corporation Limited from December 2007 to May 2009.

Ms. XU graduated from the University of Northampton in the United Kingdom in July 2005, majoring in psychology and human resources management, and graduated from the Business School of Aston University in the United Kingdom in March 2007 with a master's degree in business psychology and human resources management.

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

Mr. ZHANG Jingguo, aged 54, was appointed as a non-executive Director of the Bank in February 2012. He has served as the chairman and the chief executive officer of Henan Zensun Property Co., Ltd. (河南正商置業有限公司) since January 2001. He has served as the chairman, the executive director and the chief executive director of ZH International Holdings Ltd. (formerly known as Heng Fai Enterprises Limited, listed on the Hong Kong Stock Exchange, stock code: 00185) since July 2015, and a director of Global Medical REIT since June 2016. Prior to that, he had served as the deputy chief of Henan Household Appliances Industry Co., Ltd. (河南省五金家電工業公司) from July 1983 to June 1991, the division chief of Henan Light Industry Bureau (河南省輕工業廳) from July 1991 to April 1995 and the general manager of Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司) from April 1995 to April 2001.

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

Mr. JI Hongjun, aged 55, was appointed as a non-executive Director of the Bank in February 2012. He has successively served as the deputy general manager and the vice president of Zhongyuan Trust Co., Ltd. (中原信託有限公司) since December 2003, and the director of Great Wall Fund Management Co., Ltd. (長城基金管理有限公司) since December 2008. He had served as the non-executive director of Bank of China Travel Services Jiaozuo Co., Ltd. (焦作中旅銀行股份有限公司) from November 2012 to May 2016, and a director of Henan Asset Management Company Limited (河南資產管理有限公司) since August 2017. He had served as the deputy chief of the finance department of Henan Province Development and Planning Commission (河南省發展計劃委員會) from August 2000 to September 2003 (serving as the deputy chief of the No. 1 credit loan section of Henan Branch of the China Development Bank (國家開發銀行河南省分行) from September 2002 to September 2003), the deputy chief of the fixed asset investment department of Henan Province Planning Commission (河南省計劃委員會) from February 1999 to August 2000, the deputy chief of the senior officer department of Henan Province Planning Commission from April 1997 to February 1999, the principal staff member of the foreign economy department of Henan Province Planning Economy Commission (河南省計劃經濟委員會) and Henan Province Planning Commission from April 1993 to April 1997, the deputy chief staff member of the foreign economy department of Henan Province Planning Economy Commission from August 1991 to April 1993, the staff member of the foreign economy department of Henan Province Planning Economy Commission from January 1989 to August 1991, the clerk of the finance department of Henan Province Planning Economy Commission from September 1987 to January 1989, and a staff member of the finance and trade department and the finance department of Henan Province Planning Economy Commission from July 1984 to September 1987.

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

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

Mr. MA Jinwei, aged 42, was appointed as a non-executive Director of the Bank in June 2015. He has served as the general manager of Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司) since May 2014. Prior to that, he had served as the accountant of the finance department and financial manager of Zhengzhou Yaxing Real Estate Development Co., Ltd. (鄭州亞星房地產開發有限公司) from July 1996 to May 2001, the staff of the group audit department of Henan Shuanghui Industry Group Co., Ltd. (河南省雙匯實業集團有限責任公司) and the financial director and secretary of the board of Hehan Shuanghui Real Estate Development Co., Ltd. (河南雙匯地產發展有限公司) from May 2001 to September 2003. He had successively served as the chief accountant of the financial department, the deputy manager of the financial department, the group financial manager, the financial director, the deputy general manager and the director of Henan Yinji Real Estate Development Co., Ltd. (河南銀基房地產開發有限公司) from October 2004 to May 2014.

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

Mr. LIANG Songwei, aged 49, was appointed as a non-executive Director of the Bank in February 2012. He has served as the general manager of Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司) since November 2008, the director of the aforesaid company since December 2009 and the chairman of the aforesaid company since June 2015. He served as the business manager of Henan Native Produce Import and Export Co., Ltd. (河南省土產進出口公司) from August 1989 to June 1993, the chairman of Henan Baihe International Highway Technology Co., Ltd. (河南百和國際公路科技有限公司) from July 1993 to August 2006 and has served as the assistant to the general manager of Zhengzhou Baiwen Co., Ltd. (Group) (鄭州百文股份有限公司(集團)) since November 2001. He had served as the director and the deputy general manager of Zhengzhou Baiwen Group Co., Ltd. (鄭州百文集團有限公司) from August 2006 to October 2008, and has served as the director of Zhengzhou Middle and Small-sized Enterprises Guarantee Co., Ltd. (鄭州中小企業擔保有限公司) since June 2009 and the chairman of Zhengzhou Industry Development Guidance Fund Co., Ltd. (鄭州市產業發展引導基金有限公司) since January 2015.

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

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

Mr. YU Zhanglin, aged 51, was appointed as a non-executive Director of the Bank in June 2016. He has concurrently served as the vice president of CCCC Financial Limited (中國城市國際金融控股集團有限公司) since January 2016. Prior to that, he had worked in Henan Province Metallurgy Plan and Design Institute (河南省冶金規劃設計院) from September 1988 to March 1992 and the Yellow River Conservancy Commission of the Ministry of Water Resources (水利部黃河水利委員會) from March 1992 to May 2004 and has served as the general manager of Shenzhen Southern Great Wall Investment Holdings Co., Ltd. (深圳南方長城投資控股有限公司) since May 2004.

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

Mr. WANG Shihao, aged 67, was appointed as an independent non-executive Director of the Bank in February 2012. He was appointed as the director-general of the Funds Clearing Centre for City Commercial Banks (城市商業銀行資金清算中心) in September 2002 and had served as the legal representative of the Funds Clearing Centre for City Commercial Banks from July 2002 to August 2013. He served as the independent non-executive director of Huishang Bank Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 3698) from October 2011 to December 2015. Prior to that, he had served as the director and vice president of Shanghai City Cooperation Commercial Bank (上海城市合作商業銀行) (currently known as Bank of Shanghai) from December 1995 to May 2010 and the director of Shanghai City Credit Cooperatives (上海市城市信用合作社聯社) from February 1991 to December 1995. In addition, he had been appointed as the special expert for decision consulting of the Shanghai People's Government (上海市人民政府決策諮詢特聘專家) from March 2008 to February 2010 and from December 2010 to November 2012. He has served as a part-time professor of Shanghai National Accounting Institute since July 2010, a part-time professor of Overseas Education College of Shanghai Jiao Tong University since January 2011, a visiting professor (2012–2014) of the School of Economics of Fudan University from June 2012 to December 2014 and a part-time professor of the College of Business of Shanghai University of Finance and Economics since May 2013.

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

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

Mr. LI Huaizhen, aged 60, was appointed as an independent non-executive Director of the Bank in June 2015. He has served as an executive Director and the president of China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) since July 2014, the vice chairman of the Chinese Committee of The Silk Road Business Council since August 2017, the chairman of Tianjin China Minsheng Drawin Technology Co., Limited (天津中民築友科技有限公司) since September 2017 and a council member of Shanghai Finance Institute since September 2017. Prior to that, he had served as a director of CM Investment International Holdings Limited (中民投國際控股有限公司) from April 2015 to October 2016, a director of CM International Capital Limited (中民國際資本有限公司) from November 2014 to October 2016 and the vice chairman of the board of supervisions of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司) from April 2012 to June 2014. He had successively worked in the CBRC as a member of the preparatory team of the Shandong office, the vice director of the Shandong office, the director of the Hubei office, and the director of the financial accounting department from July 2003 to 2012, the vice president of PBoC Jinan office and the deputy director of SAFE Jinan office from November 1998 to September 2003, the vice president of PBoC Henan office and the deputy director of SAFE Henan office from January 1997 to November 1998. He had successively worked in the PBoC as a staff member of the Zhoukou region branch planning section, a deputy director and director of the Zhoukou region branch office, the vice president of the Luohe branch, and the president of the Zhengzhou branch from September 1983 to January 1997, and a staff member of PBoC Zhoukou region branch statistics section from March 1980 to September 1981.

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

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

Mr. XIE Taifeng, aged 59, was appointed as an independent non-executive Director of the Bank in June 2015. He has served as the independent director of Woori Bank (China) Limited (友利銀行(中國)有限公司) since September 2013, the professor of School of Finance of Capital University of Economics and Business since July 2005 and an independent director of China Haohua Chemical Group Co., Ltd. (中國昊華化工集團股份有限公司) since March 2013. In addition, he served as the deputy dean, and the dean and PhD supervisor of School of Finance of Capital University of Economics and Business from January 2006 to March 2015. He served as the professor of Business Administration Branch School of Beijing Machinery Industry Institute (北京機械工業學院) from July 2000 to July 2005, and the teaching assistant of the Economics Department, the lecturer of the Economics Department, the associate professor of the Business School, the dean of the Finance Department, the deputy dean of the Business School, the professor and the deputy dean of the Business School of Zhengzhou University from January 1982 to July 2000.

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

Mr. WU Ge, aged 50, was appointed as an independent non-executive Director of the Bank in June 2015. He has served as the director and the legal representative of Beijing Zhongwen Law Firm (北京市中聞律師事務所) since November 2013. In addition, he has served as a tutor of the Master of Laws program of the Law School of Tsinghua University since 2003, the director of the Constitutional and Human Rights Committee of the All China Lawyers Association (中華全國律師協會憲法與人權專業委員會) since 2004, a tutor of the Master of Laws program of Central University of Finance and Economics since December 2015, a part-time researcher of the Institute of Criminal Law Science of Beijing Normal University since August 2006, an independent member of the Loans Review Committee of the headquarters of China Development Bank since 2007, the director of the third and the fourth sessions of the Chinese Overseas Friendship Association (中華海外聯繫會) since September 2008, a member of the 11th Henan Provincial Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆河南省委員會) since January 2013, the standing vice president of the China Institute of Case-based Jurisprudence (中國案例法學研究會) since October 2013, a part-time researcher of the Human Rights Education and Research Centre of the Southwestern University of Politics and Law, being the national base of human rights education and training, since April 2015. He served as a part-time professor of the Law School of China University of Political Science and Law from May 2007 to May 2010.

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

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

Ms. CHAN Mei Bo Mabel, aged 46, was appointed as an independent non-executive Director of the Bank in June 2015. She established Mabel Chan & Co. (陳美寶會計師事務所) in February 1999 and became the deputy managing partner of Grant Thornton Limited in January 2016. She has served as an independent non-executive Director of Kingmaker Footwear Holdings Ltd. (listed on the Hong Kong Stock Exchange, stock code: 01170) since August 2011, and an independent non-executive Director of South China Assets Holdings Limited (formerly known as South China Land Limited, listed on the Hong Kong Stock Exchange, stock code: 08155) from May 2013 to December 2016. She served as a council member of the Association of Women Accountants HK Ltd. (香港女會計師協會) from January 2006 to March 2017, and served as the president in 2010. She had served as the president of the Society of Chinese Accountants and Auditors (香港華人會計師公會) from December 2009 to December 2010, a member of Barristers Disciplinary Tribunal Panel of Hong Kong (香港大律師紀律審裁團) since May 2010, a member of the Council of Hong Kong Baptist University since January 2013, a member of the Appeal Panel (Housing) of Hong Kong (香港上訴委員會(房屋)) since April 2014, and a member of the Council of Hong Kong Institute of Certified Public Accountants (香港會計師公會) since December 2007 and the president of the aforesaid Institute from December 2016 to December 2017, a member of the Export Credit Insurance Corporation Advisory Board of HKSAR (香港出口信用保險局諮詢委員會) since April 2017, a member of the Air Transport Licensing Authority of HKSAR (香港空運牌照局) since August 2017, a member of the Securities and Futures Appeals Tribunal of HKSAR (香港證券及期貨事務上訴審裁處) since April 2017, a member of the Small and Medium Enterprises Committee of HKSAR (香港中小型企業委員會) since January 2017, a member of the Trade and Industry Advisory Board of HKSAR (香港工業貿易諮詢委員會) since September 2017.

Ms. CHAN obtained a master's degree in business administration from Hong Kong University of Science and Technology (Hong Kong) in November 2000. She has been a member of the Chartered Association of Certified Accountants (英國特許公認會計師公會) since November 1996, a member of Hong Kong Institute of Certified Public Accountants (香港會計師公會) since January 1997 and a certified public accountant (practising) accredited by the Hong Kong Society of Accountants (香港會計師公會) since 1999, a member of the Society of Chinese Accountants & Auditors (香港華人會計師公會) since December 2002, a member of the Institute of Chartered Accountants in England and Wales (英格蘭和韋爾斯特許會計師公會) since February 2008, and a member of CPA Australia (澳洲會計師公會) since 2017.

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

Supervisors

Ms. ZHAO Lijuan, aged 55, was appointed as a shareholder Supervisor and chairwoman of the Board of Supervisors of the Bank in June 2016, and has served as the chairwoman of the labor union of the Bank since November 2007. She joined the Bank in August 1996 and had successively served as the vice president and the president of the Wulibao sub-branch, the president of the Jinhai Avenue sub-branch and the vice president of the Bank from August 1996 to June 2016. Prior to joining the Bank, she successively served as the accountant and the accounting chief of Zhengzhou Wulibao City Credit Cooperatives (鄭州五裡堡城市信用社) from December 1984 to August 1996.

Ms. ZHAO graduated from the Air Force Logistics Management College of the People's Liberation Army of the PRC (中國人民解放軍空軍後勤管理學院) (Jiangsu, China) in June 2004, majoring in financial management. She obtained a completion certificate of advanced course program in finance major in the master of business administration program (工商管理碩士課程金融方向高級研修班) from the School of Finance of Renmin University of China (Beijing, China) in March 2008. She has been a senior political consultant accredited by the Senior Professional Evaluation Committee of Henan Province Enterprises' Ideological and Political Personnel (河南省企業思想政治工作人員高級專業職務任職資格評審委員會) since January 2009, and a senior economist accredited by the Ministry of Personnel of the PRC since November 2015.

Mr. ZHU Zhihui, aged 48, was appointed as a shareholder Supervisor of the Bank in June 2015. He had served as deputy general manager of Henan Province Light Industry Economic Technology Import and Export Co., Ltd. (河南省輕工經濟技術進出口公司) from June 1987 to March 1993 and the general manager of Zhengzhou Huida Real Estate Development Co., Ltd. (鄭州暉達房地產開發有限公司) from March 1993 to November 2011. He served as the chairman of Zhengzhou Huida Industry (Group) Co., Ltd. (鄭州暉達實業(集團)有限公司) from May 1998 to December 2014, the chairman of Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司) since December 2005, and the chairman of Zhengzhou Huida Real Estate Development Co., Ltd. (鄭州暉達房地產開發有限公司) since November 2011.

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

Ms. MENG Jun, aged 46, was appointed as a Shareholder Supervisor of the Bank in February 2012. She had successively served as the assistant to the president, the financial director and the deputy general manager of Henan Zhenghong Property Co., Ltd. from June 1996 to June 2013, and has served as the vice president of Henan Zhenghong Property Co., Ltd. (河南正弘置業有限公司) since July 2013.

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

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

Mr. TANG Yunwei, aged 73, was appointed as an external Supervisor of the Bank in February 2012. He has been a member of the Accounting Standards Committee of the Ministry of Finance of the PRC since October 1998 and was a member of the Auditing Standards Committee of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) from January 2007 to January 2009. He served as an independent non-executive director of PingAn Insurance (Group) Company of China Ltd. (listed on the Hong Kong Stock Exchange, stock code: 02318; listed on the Shanghai Stock Exchange, stock code: 601318) from June 2009 to June 2015, an independent director of Tung Kong Security Printing Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002117) from August 2009 to September 2012, an independent director of Jiangsu Zhongnan Construction Group Holding Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000961) from August 2010 to March 2014, an independent director of Shanghai Bairun Flavour & Fragrance Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002568) from November 2011 to November 2014, and has been an independent non-executive director of China National Building Material Co. Ltd. (listed on the Hong Kong Stock Exchange, stock code: 03323) since October 2014, and an independent director of Universal Scientific Industrial (Shanghai) Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601231) since March 2017. Prior to that, he had served as the legal representative of the Shanghai Association of Accounting (上海市會計學會) from August 2002 to July 2012, and as a partner at Ernst & Young from January 2002 to December 2006. He had successively served as an associate professor and professor of Shanghai University of Finance and Economics from 1984 to March 1991, the acting vice principal of Shanghai University of Finance and Economics from March 1991 to September 1993 and the principal of Shanghai University of Finance and Economics from October 1993 to January 1999. He was elected as an honorary member of the Association of Chartered Certified Accountants (英國公認會計師公會) in July 2001, and was awarded the title of “returned overseas student with outstanding contribution to socialist modernisation construction” (在社會主義現代化建設中突出貢獻的回國留學人員) by the State Education Commission and Ministry of Personnel in January 1991.

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

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

Mr. SONG Ke, aged 36, was appointed as an external Supervisor of the Bank in May 2017. He has served as a lecturer in the Faculty of Monetary Finance of the School of Finance of Renmin University of China (中國人民大學財政金融學院貨幣金融系) since September 2015, assistant to the dean of the School of Finance of Renmin University of China (中國人民大學財政金融學院) since January 2018, a council director and deputy director of the International Monetary Institute of Renmin University of China (中國人民大學國際貨幣研究所) since January 2014, an external supervisor of Xiamen International Financial Technology Co., Ltd. (廈門國際金融技術有限公司) since October 2015 and an independent non-executive director of Zhejiang YongAn Rongtong Holdings Co., Ltd. (浙江永安融通控股股份有限公司) (listed on the Hong Kong Stock Exchange, stock code: 08211) since December 2017. Mr. SONG served as league secretary general of the School of Finance of Renmin University of China (中國人民大學財政金融學院) from July 2004 to September 2009 and a post-doctoral researcher of the School of Statistics of Renmin University of China from July 2012 to July 2015. He was appointed as deputy commissioner of the Banking Commission of the Guizhou People's Government Finance Office (貴州省政府金融辦銀行處) from November 2012 to December 2013.

Mr. SONG graduated from the School of Finance of Renmin University of China (Beijing, China) in July 2004, majoring in finance, with a bachelor's degree in economics. He continued his masters and doctoral studies at the School of Finance of Renmin University of China (Beijing, China) from September 2006 to July 2012, and obtained a doctoral degree in economics.

Ms. DUAN Ping, aged 51, was appointed as an employee Supervisor of the Bank in February 2012, and appointed as the director of the discipline inspection office of the Bank in May 2015. She joined the Bank in August 1996 and had successively served as a staff member of the Wulibao sub-branch of the Bank, a staff member of the head office party affairs office, a staff member of the planning department, a staff member of the planning and funds department, a staff member of the human resources department, the general manager of the party affairs department, and the vice president of the Luoyang branch from August 1996 to May 2015. Prior to that, she was a staff member of Zhengzhou Wulibao City Credit Cooperatives (鄭州市五裡堡城市信用社) from April 1995 to August 1996.

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

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

Ms. ZHANG Chungue, aged 49, was appointed as an employee Supervisor of the Bank in February 2012 and appointed as the president of the Zhenghua Road sub-branch of the Bank in February 2014. She joined the Bank in September 2000 and had successively served as the manager of the marketing department, and the president of the Weiyi Road sub-branch of the Bank from September 2000 to February 2014. Prior to that, she had successively served as the deputy director responsible for credit, vice chairwoman and officer of Wugang City Urban Credit Cooperatives (舞鋼市城市信用社) from March 1985 to September 2000.

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

Ms. CUI Huarui, aged 50, was appointed as an employee Supervisor of the Bank in May 2015 and appointed as the director of the head office business department of the Bank in July 2014. She joined the Bank in February 2002 and had successively served as the vice president of the Jingguang Road sub-branch, the president of the Xinghua Street sub-branch, and the president of the West District sub-branch from February 2002 to July 2014. Prior to that, she had served as a staff member and manager of the operation department of Bridge Trust Investment Company (百瑞信託投資公司) from February 1993 to January 2002, and a staff member of the Zhengzhou Fangzhi Road grain office from September 1988 to January 1993.

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

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

Senior Management

For Mr. SHEN Xueqing's biography, please see the section headed "Directors".

Mr. XIA Hua, aged 50, has served as a vice president of the Bank since December 2011. He is primarily responsible for the operations of the credit approval department, the risk management department, the compliance department and the asset security department. Mr. XIA has nearly 28 years of experience in the banking industry. He joined the Bank in December 2011. Prior to joining the Bank, he had successively served in CBRC Henan Office as a principal staff member and the deputy chief of the state-owned banking regulatory No. 1 department, the deputy chief and the regulatory researcher of the city commercial banks regulatory department from September 2003 to December 2011. He had successively served as the vice president of the PBoC sub-branch in Yichuan County, the deputy principal staff member and a principal staff member of the rural cooperative finance management department of the Henan office, a principal staff member of the cooperation department of the Zhengzhou regulatory office of the Jinan office, a principal staff member of the regulatory department of Agricultural Bank of China from August 1996 to September 2003, and a staff member of the foreign exchange department of PBoC Luoyang Office from July 1990 to July 1996.

Mr. XIA graduated from Beijing Agricultural Engineering University (北京農業工程大學) (Beijing, China) in July 1990, majoring in applied electronic technology, with a bachelor's degree in engineering, and an EMBA degree from the China Europe International Business School (中歐國際工商管理學院) (Shanghai, China) in October 2015. He has been an economist accredited by the Ministry of Personnel of the PRC since June 1995.

Mr. GUO Zhibin, aged 49, has served as the vice president of the Bank since December 2015. He is primarily responsible for the operations of the operations management department and the administrative management department of the Bank. Mr. GUO has over 19 years of experience in the banking industry. He served as an assistant to the president of the Bank from December 2010 to December 2015. Prior to that, he had served as the president of the Huanghe Road sub-branch of the Zhengzhou branch at Industrial Bank Co., Ltd. (興業銀行股份有限公司) from March 2006 to December 2010. In addition, he had served at Everbright Bank Co., Ltd. (光大銀行股份有限公司) as the assistant to the president and the vice president of the Hongzhuan Road sub-branch of the Zhengzhou branch, the deputy general manager of corporate business No. 2 department of the Zhengzhou branch, and the general manager of the asset security department of the Zhengzhou branch from June 1999 to March 2006. He served as the manager and the deputy general manager of the general office of Henan Yutai Mall Co., Ltd. (河南豫泰商廈有限公司) from October 1997 to May 1999, and the deputy director of the general office of the Zhengzheng Sanjie (證政三街) sub-branch of the Bank and the Henan Province Labor City Credit Cooperative (河南省勞動城市信用社) from August 1996 to October 1997 and from January 1995 to August 1996, respectively.

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

Mr. GUO graduated from Zhengzhou University (Henan, China) in June 1995, majoring in finance. He graduated from Henan University (Henan, China) with the completion of the national economics post-graduate course program (國民經濟學專業研究生課程進修班) in July 1999, and obtained a master's degree in business administration from the Asia International Open University (Macau) (Macau, China) in August 2004, and an EMBA degree from the Guanghua School of Management, Peking University (北京大學光華管理學院) (Beijing, China) in June 2017. He has been an economist accredited by the Ministry of Personnel of the PRC since November 1997.

Mr. SUN Haigang, aged 40, has served as an assistant to the president of the Bank since October 2009. He is primarily responsible for the science and technology development department of the Bank. Mr. SUN has nearly 9 years of experience in the banking industry. He joined the Bank in October 2009 and served as an assistant to the president of the Bank and the general manager of the strategic development department of the Board from October 2009 to October 2013, and an assistant to the president of the Bank and the president of the Luoyang branch from October 2013 to April 2016. Prior to joining the Bank, he worked at Baosteel Holding Co., Ltd. (寶山鋼鐵股份有限公司) from July 2007 to September 2009.

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

Mr. ZHANG Wenjian, aged 52, has served as an assistant to the president of the Bank since May 2011. He is primarily responsible for the operations of the financial department of small business, the electronic banking department, the retail banking department, the credit card department, the internet finance department and the asset management department. Mr. ZHANG has over 33 years of experience in the banking industry. He joined the Bank in November 1997 and had successively served as a staff member of the Zhengliu Street sub-branch, the deputy general manager of the financial accounting department, the general manager of the accounting and settlement department, the general manager of the corporate business department, a member of the preparatory team of the Nanyang branch, and the president of the Nanyang branch from November 1997 to May 2011. Prior to that, he had served as the deputy chief of the accounting section and the director of the transaction centre of the Jinshui sub-branch of Industrial & Commercial Bank of China Limited (中國工商銀行股份有限公司) from February 1985 to November 1997.

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

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

Ms. MAO Yuezhen, aged 54, has served as the chief accountant of the Bank since September 2011. She is primarily responsible for the operations of the finance and accounting department. Ms. MAO has nearly 25 years of experience in finance and accounting. She joined the Bank in August 1996 and had successively served as the chief of the accounting section of the Hongqi Road sub-branch, the vice president of the Hongqi Road sub-branch, the deputy director of the auditing department, the general manager of the audit and supervision department, the director of the assessment office, the general manager of the planning and asset department, and the general manager of the finance and accounting department of the Bank from August 1996 to October 2011. Prior to joining the Bank, she had served as the manager of the accounting department of Henan Jinyu Experimental Bank (河南金育實驗銀行) from April 1993 to July 1996, and a lecturer of the Henan College of Financial Management Cadres (河南金融管理幹部學院) from July 1987 to March 1993.

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

Mr. FU Chunqiao, aged 44, has served as the director of the Office of the Board of Directors of the Bank since January 2011 and the secretary to the Board of Directors since June 2013. He is primarily responsible for the operations of the Office of the Board of Directors. Mr. FU has over 21 years of experience in the banking industry. He joined the Bank in August 1996, and had served successively as the deputy manager and the deputy general manager of the planning and asset department, and the deputy general manager and the general manager of the asset operation department from March 2000 to January 2011.

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

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

Mr. JIANG Tao, aged 45, has served as the chief information officer of the Bank since December 2015, and the general manager of the science and technology development department of the Bank since April 2005. Mr. JIANG has nearly 24 years of experience in the banking industry. He joined the Bank in August 1996, and had served successively as the assistant engineer of the science and technology department, the chief of the ex post-supervision and development department and the chief and deputy general manager of the science and technology development department from August 1996 to April 2005.

Mr. JIANG graduated from Zhengzhou University (Henan, China) in July 1994, majoring in computer science and its application. He obtained a master's degree in computer engineering from PLA Information Engineering University (Henan, China) from September 2002 to July 2005. He has been a senior programmer accredited by the Examination Board of China Qualification Certificate of Computer and Software Technology Proficiency (中國計算機軟件專業技術資格和水平考試委員會) since October 2003.

Mr. LI Lei, aged 44, has served as an assistant to the president since November 2017. He is primarily responsible for the operations of the corporate business department, the transaction banking department I and the transaction banking department II. Mr. LI has about 26 years of experience in the banking industry. He joined the Bank in September 1996, and had successively served as the deputy chief of the accounting section, the deputy director of the transaction centre, the deputy manager of the asset security department and the credit department of the Jinhai Avenue sub-branch, the deputy general manager of the head office risk management department, the deputy general manager of the head office credit approval department, the president of the Zidong sub-branch, the president of the Baolongcheng sub-branch, and the president of the Xinzheng sub-branch, the general manager of the head office corporate business department, the president of the Xinxiang branch and the president of the Luoyang branch from September 1996 to November 2017. Prior to that, he worked at Zhengzhou Urban Credit Cooperatives from July 1992 to August 1996.

Mr. LI graduated from the Party School of the Central Committee of the Communist Party of China (Beijing, China) in December 1996, majoring in foreign economics, and graduated from TEDA College, Nankai University (南開大學泰達學院) (Tianjin, China) in July 2017, majoring in finance. He has been an assistant accountant accredited by the Ministry of Personnel of the PRC since April 1996.

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

Mr. ZHANG Houlin, aged 41, has served as an assistant to the president since November 2017. He is primarily responsible for the operations of the Nanyang branch and serves as its president. Mr. ZHANG has about 19 years of experience in the banking industry. Mr. ZHANG joined the Bank in August 1999, and had successively served as a staff member of the head office business department, a staff member of the head office corporate business department, the president of the Longhai East Road sub-branch, the president of the Dengfeng sub-branch, the president of the Anyang branch and the president of the Nanyang branch from August 1999 to December 2017.

Mr. ZHANG graduated from Zhengzhou Shengda University of Economics, Business & Management (鄭州大學升達經貿學院) (Henan, China) in July 1999, majoring in accounting. He has been an accountant accredited by the Ministry of Finance of the PRC since May 1999.

Joint Company Secretaries

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

Ms. LEUNG Wing Han Sharon, is one of the joint company secretaries of the Bank being appointed on November 6, 2015. Ms. LEUNG is the vice president of SW Corporate Services Group Limited. She has over 12 years of experience in finance, accounting and company secretarial matters. Ms. LEUNG holds degrees of bachelor of business administration in accounting, bachelor of laws, and master of laws in international corporate and financial law. Ms. LEUNG is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators in the UK, and the Association of Chartered Certified Accountants in the UK. She is also a member of the Hong Kong Institute of Certified Public Accountants.

4 REMUNERATION POLICY AND ANNUAL REMUNERATION FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Remuneration Policy

The Bank remunerates the executive Directors and senior management according to the Administrative Measures of Bank of Zhengzhou Co., Ltd. on Remuneration and Performance for Senior Management at Governance Level and Administrative Measures of Bank of Zhengzhou Co., Ltd. on Remuneration and Performance for Senior Management at Operation Level. The Bank remunerates non-executive Directors and independent non-executive Directors according to the payment plan for allowances of the non-executive Directors and remuneration of independent non-executive Directors of the Bank, and remunerates the shareholder Supervisors and external Supervisors based on the payment plan for allowances of shareholder Supervisors and remuneration of external Supervisors of the Bank. The remuneration standard of other Supervisors is implemented in accordance with relevant measures of the Bank.

4.2 Remuneration for Directors and Supervisors

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

4.3 Remuneration for Senior Management

The table below sets out the remuneration for the Bank's senior management (excluding Directors) by salary range for the year ended December 31, 2017:

Salary range	Number of employees
0–RMB1,000,000	1
RMB1,000,001–RMB2,000,000	2
RMB2,000,001–RMB3,000,000	6

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

5 CONFIRMATION OF INDEPENDENCE FOR INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The independent non-executive Directors neither have any business or financial interests in the Bank nor hold any management position in the Bank. All the current non-executive Directors and independent non-executive Directors were elected for a term of three years. They may continue to serve for three years after the expiration of the term.

6 H-SHARE APPRECIATION RIGHTS' INCENTIVE SCHEME

The Bank did not adopt any H-share appreciation rights' incentive scheme as at the end of the Reporting Period.

7 STAFF

7.1 Composition

By department/function

	Number of employees	Percentage
Finance and accounting	1,219	29%
Corporate and retail	232	5%
Risk management, internal audit and compliance	262	6%
Retail banking	569	14%
Corporate banking	498	12%
I.T.	113	3%
Business management and support	1,202	29%
Capital business	76	2%
Total	4,171	100%

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

By age

	Number of employees	Percentage
30 years old or below	2,371	57%
31–40 years old	981	24%
41–50 years old	727	17%
Over 50 years old	92	2%
Total	4,171	100%

By level of education

	Number of employees	Percentage
Master's degree or above	574	14%
Bachelor's degree	3,018	72%
Non-degree tertiary	489	12%
Others	90	2%
Total	4,171	100%

7.2 Staff Training Plan

The Bank formulated the annual training plan based on the development strategies and the educational training objectives, and launched various training sessions to guarantee the training quality, and enhance the professionalism of employees and provide support to their career development. During the Reporting Period, the Bank consolidated the training resources at the headquarters, branches and sub-branches as well as launching intensive training projects for new businesses, new systems and new products, and also provided training to improve mid-level and senior-level management's capability, specialist training, junior staff training and new staff training. The Bank earnestly grasped the work for constructing the mobile training platform and building up the internal instructor team with a total of 239 intensive training sessions for a total of 14,161 employee participants for various business lines for the year.

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

7.3 Remuneration Policy for Staff

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

8 BASIC INFORMATION OF INSTITUTIONS UNDER THE BANK

The following table sets out the branches and sub-branches of the Bank as of December 31, 2017:

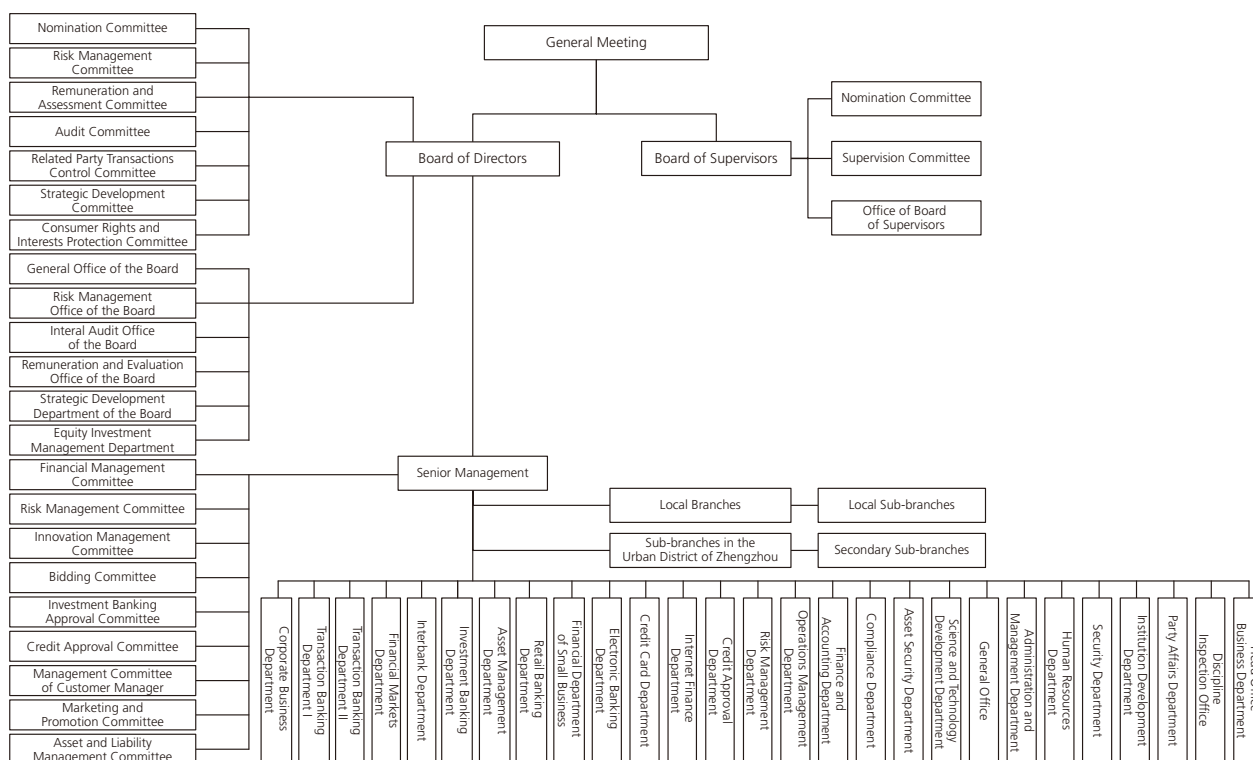
Region	Name of branch	Business address (China)	Notes
Zhengzhou, Henan	Headquarters	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province	In charge of 118 branch institutions in Zhengzhou district and 48 institutions in provincial prefectures and cities for conducting external business
Nanyang, Henan	Nanyang	The junction of Zhongjing Road and Fanli Road, Wancheng District, Nanyang City, Henan Province	In charge of 10 institutions for conducting external business
Xinxiang, Henan	Xinxiang	No. 278, Xiangyang Road, Xinxiang City, Henan Province	In charge of 7 institutions for conducting external business
Luoyang, Henan	Luoyang	Longan Building (隆安大廈), the junction of Guanlin Road and Houzaimen Street, Luolong District, Luoyang City, Henan Province	In charge of 7 institutions for conducting external business
Anyang, Henan	Anyang	Yiwu International Business & Trade Mansion, the junction of Chouzhou Road and Delong Street, Andong New District, Anyang City, Henan Province	In charge of 5 institutions for conducting external business
Shangqiu, Henan	Shangqiu	Floor A2B, Siji Harbour, Wenhua Road North and Zhongzhou Road East, Liangyuan District, Shangqiu City, Henan Province	In charge of 5 institutions for conducting external business
Xuchang, Henan	Xuchang	Juncheng International Building (亨通君成國際大廈), the junction of Liancheng Avenue and Weiwen Road, Weidu District, Xuchang City, Henan Province	In charge of 3 institutions for conducting external business
Luohe, Henan	Luohe	Floor 1-5, Changjian International (昌建國際), the junction of Songshan West Branch Road and Mudanjiang Road, Yancheng District, Luohe District, Henan Province	In charge of 3 institutions for conducting external business

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

Region	Name of branch	Business address (China)	Notes
Xinyang, Henan	Xinyang	Floor 1-2, Zhongle Baihua Mansion (中樂百花公館), the junction of Xinqi Avenue and Xinba Street, Yangshan New District, Xinyang City, Henan Province	In charge of 4 institutions for conducting external business
Puyang, Henan	Puyang	The northwest of junction of Renmin Road and Kaizhou Road, Longhua District, Puyang City, Henan Province	In charge of 1 institution for conducting external business
Pingdingshan, Henan	Pingdingshan	Kaiyuan Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of 1 institution for conducting external business
Zhumadian, Henan	Zhumadian	The junction of Huaihe Avenue and Tianzhongshan Avenue, Zhumadian City, Henan Province	In charge of 1 institution for conducting external business
Kaifeng, Henan	Kaifeng	The junction of Jinming Avenue and Hanxing Road, Kaifeng City, Henan Province	In charge of 1 institution for conducting external business
Zhengzhou, Henan	Small Business Financial Service Centre	Room 102, 2/F and Room 301-309, 3/F, 4A1, North of Longhu Zhonghuan South Road and East of Jiuru Road, Zhengdong New District, Zhengzhou City, Henan Province	In charge of 13 institutions for conducting external business

CHAPTER VIII CORPORATE GOVERNANCE REPORT

1 COMPANY STRUCTURE



Note: After the Reporting Period, as considered and approved at the 2018 first extraordinary meeting of the 5th session of the Board of Directors, it was resolved to rename the Loan Approval Department as Credit Approval Department, establish the Credit Extension Management Department, merge the Interbank Department into the Financial Market Department and adjust the duties of the departments accordingly.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

2 OVERVIEW OF CORPORATE GOVERNANCE

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

In proactive compliance with the best domestic and international corporate governance practices, the Bank has established a sound system of corporate governance, which will be revised in accordance with the Listing Rules and regulatory requirements from time to time. Relevant regulatory documents include (but are not limited to) the Articles of Association, the rules of procedures of general meetings, Board meetings and meetings of the Board of Supervisors, independent director administration criteria, working rules for the Strategy Development Committee of the Board of Directors, working rules for the Risk Management Committee of the Board of Directors, working rules for the Related Party Transactions Control Committee of the Board of Directors, working rules for the Audit Committee of the Board of Directors, working rules for the Nomination Committee of the Board of Directors, working rules for the Remuneration and Assessment Committee of the Board of Directors, working rules for the Consumer Rights Protection Committee of the Board of Directors, management policies on related party transactions, information disclosure criteria, investor relations management criteria, etc.

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

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

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

Board Diversity Policy

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

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

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

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

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

3 GENERAL MEETINGS

During the Reporting period, the Bank held one annual general meeting, one domestic shareholders class meeting and one H shareholders class meeting, the particulars of which are as follows:

On May 19, 2017, at the 2016 Annual General Meeting held by the Company in Zhengzhou, Henan Province, 22 resolutions regarding the 2016 Board of Directors' report, 2016 Board of Supervisors' report, 2017 financial budget, profit distribution plan, amendments to the Articles of Association, non-public issuance of the Offshore Preference Shares, and the appointment of Directors and Supervisors were considered and approved.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

On May 19, 2017, at the 2017 first domestic shareholders class meeting held by the Bank in Zhengzhou, Henan, 2 resolutions in relation to the non-public issuance of the Offshore Preference Shares were considered and approved.

On May 19, 2017, at the 2017 first H shareholders class meeting held by the Bank in Zhengzhou, Henan, 2 resolutions in relation to the non-public issuance of the Offshore Preference Shares were considered and approved.

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

4 BOARD OF DIRECTORS

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

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

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

- convening and reporting to general meetings;
- implementing the resolutions adopted at general meetings;
- deciding on the operation development strategy, operation plans and investment plans of the Bank, among which, operation development strategy includes relevant green credit strategy;
- formulating annual financial budgets, financial statements, profit distribution plans and loss recovery plans of the Bank;
- formulating proposals on the increase or decrease of registered capital, the issuance of bonds or other securities and the listing of the Bank;
- formulating proposals on major acquisitions by the Bank, acquisitions of the Shares of the Bank or merger, division, dissolution or change of the corporate form;
- deciding on external investment, acquisition and disposal of assets, pledge of assets, external guarantee, entrustment of wealth management and other matters of the Bank within the scope of authorization of the general meeting;
- examining and approving the related party transactions which require approval by the Board of Directors as stipulated by the law, administrative regulations, departmental rules, regulatory documents and regulations of securities regulatory authorities of the locality where the Bank's stocks are listed;
- deciding on the establishment of the Bank's internal management departments;
- appointing or removing the Bank's President and secretary to the Board of Directors, deciding to appoint or removing the Bank's senior management personnel including the Vice Presidents, Assistants to the President and chief financial officer of the Bank in accordance with the recommendations of the President, and determining their remunerations, rewards and punishment;
- formulating the basic management systems of the Bank, deciding on the policies on risk management, internal control and compliance policy of the Bank;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- formulating amendment proposals on amendments to the Articles of Association, the rules of procedures of general meetings and Board meetings;
- proposing at a general meeting the appointment, dismissal or discontinuance of appointment of accounting firms;
- supervising the work performance of the senior management, receiving the President's work report and inspecting the President's work;
- managing the information disclosure of the Bank and taking ultimate responsibility for the completeness and accuracy of the Bank's accounting and financial reporting systems;
- considering any material capital expenditure, contract and commitment which exceed the expenditure limit for senior management set by the Board of Directors; and
- other functions and powers required by laws, administrative regulations, departmental rules or the Articles of Association, and other functions and powers authorised by the general meeting.

4.1 Members of the Board

As at the end of the Reporting Period, the Board of Directors consisted of a total of 15 members, with 3 executive Directors: Mr. WANG Tianyu (王天宇) (Chairman), Mr. SHEN Xueqing (申學清) (President of the Bank) and Mr. FENG Tao (馮濤) (Vice Chairman); 7 non-executive Directors: Mr. FAN Yutao (樊玉濤), Ms. XU Jingnan (徐靜楠), Mr. ZHANG Jingguo (張敬國), Mr. JI Hongjun (姬宏俊), Mr. MA Jinwei (馬金偉), Mr. LIANG Songwei (梁嵩巍) and Mr. YU Zhanglin (于章林); and 5 independent non-executive Directors: Mr. WANG Shihao (王世豪), Mr. LI Huaizhen (李懷珍), Mr. XIE Taifeng (謝太峰), Mr. WU Ge (吳革) and Ms. CHAN Mei Bo Mabel (陳美寶).

For the terms of office of non-executive Directors, please refer to the section headed "Directors, Supervisors, Senior Management, Staff and Institutions" in this annual report.

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

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

4.3 Chairman and President

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

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

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

4.4 Responsibilities of Directors

During the Reporting Period, all Directors carefully, earnestly and diligently attended relevant meetings as specified and required by relevant laws and regulations and the Articles of Association, where they exercised their rights regarding the operation of the Board and resolutions of the Board, duly considered and voted on its resolutions and actively offered responsible suggestions and advice, which facilitated our sound and sustainable development and perfectly completed the tasks and objectives of the Board. While properly exercising their rights as Directors, they were performing their corresponding obligations to fully protect the rights of Shareholders. Directors acknowledge their responsibilities for preparing the financial statements of the Bank for the year ended 31 December 2017.

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

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

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

During the Reporting period, the Board of Directors held 10 meetings, considering and approving 66 major resolutions including the Annual Work Report of the Board of Directors, financial budget report, annual profit distribution plan, resolutions relating to the issuance of the A Shares and resolutions relating to the issuance of the Offshore Preference Shares, amendments to the Articles of Association and pledge of equity interests by Shareholders.

Particulars of the Meetings

Number and session	Date of convening	Form of convening
The 2017 first extraordinary meeting of the fifth session of the Board	January 19, 2017	By correspondence
The 2017 second extraordinary meeting of the fifth session of the Board	March 23, 2017	By correspondence
The ninth meeting of the fifth session of the Board	March 25, 2017	On-site meeting
The tenth meeting of the fifth session of the Board	May 19, 2017	On-site meeting
The 2017 third extraordinary meeting of the fifth session of the Board	June 30, 2017	By correspondence
The 2017 fourth extraordinary meeting of the fifth session of the Board	July 21, 2017	By correspondence
The eleventh meeting of the fifth session of the Board	August 26, 2017	On-site meeting
The twelfth meeting of the fifth session of the Board	October 28, 2017	On-site meeting
The 2017 fifth extraordinary meeting of the fifth session of the Board	November 23, 2017	By correspondence
The 2017 sixth extraordinary meeting of the fifth session of the Board	December 13, 2017	By correspondence

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

Directors' Attendance

Director		Special Committees of the Board										
		2017 First			Related Party						Remuneration	Consumer
		2016 Annual	Domestic	2017 First H	Strategic		Risk	Transactions			and	Rights
		General	Shareholders	Shareholders	Board of	Development	Management	Control	Audit	Nomination	Assessment	Protection
		Meeting	Class Meeting	Class Meeting	Directors	Committee	Committee	Committee	Committee	Committee	Committee	Committee ⁽⁵⁾
Actual/required attendance (times) ⁽⁴⁾												
Executive Directors	WANG Tianyu	✓	✓	✓	10/10	2/2						0/0
	SHEN Xueqing	✓	✓	✓	10/10	2/2						0/0
	FENG Tao	✓	✓	✓	10/10	2/2						0/0
Non-executive Directors	FAN Yutao	✓	✓	✓	10/10					2/2		
	XU Jingnan ⁽²⁾				2/2 ⁽³⁾							
	ZHANG Jingguo	✓	✓	✓	9/10 ⁽¹⁾						3/3	
	Ji Hongjun	✓	✓	✓	10/10				2/2			
	MA Jinwei	✓	✓	✓	10/10		4/4					
	LIANG Songwei	✓	✓	✓	9/10 ⁽¹⁾		4/4					
	YU Zhanglin ⁽²⁾				9/10 ⁽¹⁾			5/5				
Independent Non-executive Directors	WANG Shihao	✓	✓	✓	10/10		4/4				3/3	
	LI Huaizhen	✓	✓	✓	9/10 ⁽¹⁾						3/3	
	XIE Taifeng	✓	✓	✓	10/10			5/5	2/2			
	WU Ge	✓	✓	✓	10/10			5/5		2/2		
	CHAN Mei Bo Mabel	✓	✓	✓	10/10				2/2	2/2		

Notes:

- (1) The actual attendance being lower than required attendance represents proxy attendance on their behalf when the above Directors are absent from Board meetings in person.
- (2) At the 2016 Annual General Meeting, XU Jingnan was elected as a non-executive Director with her qualification then not approved. Other absences from the general meetings were due to personal reasons.
- (3) XU Jingnan started to exercise her rights as a Director after CBRC Henan Office approved her qualification on October 27, 2017. Since then, the number of Board meetings she attended was two.
- (4) For meetings of special committees, required attendance represents the number of meetings held in the year, actual attendance represents the actual attendance of incumbent Directors.
- (5) The Consumer Rights Protection Committee of the Bank was established on August 26, 2017 and did not hold any meeting during the Reporting period.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

4.6 Performance of Duties of Independent Non-executive Directors

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

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

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

5 THE SPECIAL COMMITTEES OF THE BOARD

5.1 Strategic Development Committee

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

The primary duties of the Strategic Development Committee include:

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

During the Reporting Period, the Strategic Development Committee held a total of 2 meetings, in which they focused on important strategic development resolutions such as the capital increase plan for Jiuding Financial Leasing Company, Xinmi Zhengyin County Bank and Xinzheng Zhengyin County Bank, the establishment of the Financial Research Institute of Bank of Zhengzhou (鄭州銀行金融研究院) as well as the establishment of Queshan Zhengyin County Bank and Xunxian Zhengyin County Bank, etc.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

5.2 Risk Management Committee

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

The primary duties of the Risk Management Committee include:

- controlling, managing, monitoring and assessing risks of the Bank;
- reviewing risk control principles, objectives and policies of the Bank, and reporting them to the Board of Directors for deliberation and approval;
- reviewing risk management measures of the Bank and risk management related issues of the Bank;
- discussing significant risk management issues that need to be reported to the Board of Directors for deliberation;
- examining and supervising the risk management work carried out by the senior management in all aspects;
- conducting surveys and evaluations on risk policies, management status and risk tolerance levels of the Bank on a regular basis, and reporting to the Board of Directors;
- providing recommendations on improving risk management and internal control of the Bank;
- formulating a license management plan for the Bank and reporting to the Board of Directors for approval;
- being responsible for the anti-money laundering duties of the Bank, and organizing and guiding anti-money laundering according to the authorization of the Board of Directors, and assuming responsibility to the Board of Directors; supervising and instructing the anti-money laundering leading team of the Bank; discussing significant matters related to anti-money laundering and reviewing the anti-money laundering work report; assuming authorization and responsibility for the decision-making and treatment of anti-money laundering related significant or sensitive matters;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- being responsible for compliance management of the Bank, organizing and guiding case prevention control according to the authorization of the Board of Directors, and assuming responsibility to the Board of Directors;
- preparing overall case prevention control policy, promoting and forming case prevention control management system; clarifying responsibilities and authorities of the senior management in case prevention control; ensuring that necessary measures have been taken by the senior management for effective monitoring, early warning and treatment of risks; proposing overall requirements for case prevention control, and reviewing case prevention control report; assessing and evaluating the effectiveness of case prevention control of the Bank; ensuring effective review and supervision by the internal audit department of case prevention control;
- discussing risk management and internal control system with management, ensuring that management has fulfilled its responsibility to establish an effective system. The discussion should cover whether the Bank maintains sufficient resources, staff qualifications and experience in accounting, internal auditing and financial reporting functions and whether it has sufficient staff training and budget in place; and
- taking the initiative or as designated by the Board to review key findings of risk management and internal control as well as management's response in this regard.

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

5.3 Related Party Transactions Control Committee

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

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

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

During the Reporting Period, the Related Party Transactions Control Committee held a total of 5 meetings to consider and approve the resolutions in relation to business cooperation with related parties which satisfy relevant policy requirements, etc.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

5.4 Audit Committee

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

The primary duties of the Audit Committee include:

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- relationship with the external auditors of the Bank:
 - making recommendations to the Board of Directors on the appointment, reappointment or change of the external audit agency, reviewing the fees and terms of engagement of the external audit agency, and handling any matters relating to its resignation or dismissal;
 - reviewing and monitoring the external audit agency's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; discussing the nature and scope of the audit and reporting obligations with the external auditors before the audit commences;
 - developing and implementing policies on the engagement of an external auditor to provide non-audit services;
 - reviewing the Audit Results Letter presented by an external audit agency to management, as well as any material queries raised by the audit agency to management about accounting records, financial accounts or monitoring systems, and management's response;
 - ensuring that the Board provides a timely response to the issues raised in the Audit Results Letter; and
 - acting as the key representative body for overseeing the Bank's relations with the external audit agency and being responsible for the communications between internal and external auditors to ensure that internal and external audit work has been coordinated.
- being responsible for the Bank's annual audit and overseeing the senior management to rectify the issues raised in the audit and implement audit recommendations;
- being responsible for reviewing and approving the Bank's internal audit system and supervising its implementation, reviewing, evaluating and reporting to the Board of Directors on the internal audit on a regular basis, and ensuring that the internal audit department has sufficient resources for operation and proper status; reviewing and monitoring the effectiveness of the internal audit;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- examining the Bank's financial reporting system, risk management and internal control system and their implementation:
 - reviewing and monitoring financial control, and reviewing risk management (except where there is a risk management committee separately set up under the Board or where the Board will unequivocally handle it by itself) and internal control systems of the Bank, reviewing relevant rules and regulations and their implementation, and examining and evaluating the compliance and effectiveness of major business activities of the Bank;
 - discussing the risk management and internal control system with management and continuously examining and supervising whether management has performed its duties and has an effective system in place. The discussion shall cover the adequacy of resources, qualification and experience of employees, training of employees and the relevant budget, in terms of accounting and financial reporting of the Bank;
 - overseeing and reviewing the construction of the Bank's internal control system, organizing self-evaluations of internal control status in the Bank and reviewing the evaluation report on the Bank's internal control;
 - ensuring the Bank has adequate arrangements for employees to anonymously raise concerns on any irregularities which may occur in the Bank's financial reporting, internal control and other aspects and for the Bank to conduct a fair and independent investigation and take appropriate action on such matters; and
 - studying the significant investigation results of risk management and internal control issues and feedback of management on the investigation results on their own initiative or under the instruction of the Board of Directors.
- studying other duties as defined by the Board; and
- other matters as required by laws, regulations, department rules, regulatory documents, Listing Rules and the Articles of Association as well as those authorized by the Board of Directors.

During the Reporting Period, the Audit Committee held a total of 2 meetings to consider and approve the resolutions in relation to the 2016 Annual Report of Bank of Zhengzhou Co., Ltd., the 2016 Internal Audit Report of Bank of Zhengzhou Co., Ltd. and the 2017 Interim Report of Bank of Zhengzhou Co., Ltd., etc.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

5.5 Nomination Committee

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

The primary duties of the Nomination Committee include:

- reviewing the structure, size and composition (including skills, knowledge and experience) of the Board of Directors and the management every year according to the operations, management, asset scale and equity structure of the Bank, and providing suggestions relating to possible changes of the Board of Directors based on the strategy of the Bank;
- formulating the criteria and procedures for selecting Directors and members of senior management, and providing suggestions to the Board;
- conducting the preliminary examination of qualifications of candidates for Directors and senior management, and making recommendations to the Board;
- searching extensively for qualified candidates for Directors and senior management, formulating a training plan for senior management and key talent reserves and making recommendations to the Board;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the President; and
- other duties required in the laws, administrative regulations, department rules or the Listing Rules and those authorised by the Directors.

During the Reporting Period, the Nomination Committee held a total of 2 meetings to consider and approve the resolutions in relation to the nominations of Ms. XU Jingnan as a candidate for Director, Mr. LI Lei and Mr. ZHANG Houlin as assistants to the president and Mr. CHEN Zhongji as chief director of the Bank's credit approval business and the 2016 annual work report of the Nomination Committee, etc.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

5.6 Remuneration and Assessment Committee

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

The primary duties of the Remuneration and Assessment Committee include:

- reviewing remuneration management system and policies of the Bank;
- studying the criteria for appraising Directors and senior management, conducting the appraisal and making proposals;
- making proposals to the Board in relation to the remuneration policies and structure applying to Directors and senior management of the Bank, and establishment of formal and transparent procedures for formulating such remuneration policies, and supervising and modifying the execution of the remuneration procedures of the Bank, the Remuneration Committee shall consult with the Chairman of the Board or the President of the Bank in respect of the proposed remunerations for other executive Directors and senior management;
- reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives established by the Board;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management members;
- making recommendations to the Board on the remuneration of non-executive Directors;
- making recommendations on employment conditions for other positions of the Bank by taking into consideration remuneration of similar companies, time to pay and responsibilities;
- reviewing and approving any compensation payable to executive Directors and senior management for their losses or terminations of office or appointments to ensure that such compensation is consistent with the contractual terms, and is otherwise fair and not excessive;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- reviewing and approving compensation arrangements relating to dismissal or removal of any Director for his or her misconduct to ensure that such arrangements are consistent with the contractual terms, and are otherwise reasonable and appropriate;
- reviewing duty performance of the Directors and senior management and making annual performance assessment of them;
- ensuring that neither any director nor any of his or her associates (as defined in the Listing Rules) is involved in deciding his or her own remuneration; and
- other duties required in the laws, administrative regulations, department rules or the Listing Rules and those authorised by the Directors.

During the Reporting Period, the Remuneration and Assessment Committee held a total of 3 meetings to consider and approve the resolutions in relation to the 2016 assessment results of the remuneration and performance of the executive Directors and senior management, the 2017 assessment scheme for the remuneration and performance of executive Directors and senior management, the 2017 assessment standards for the performance of relevant senior management and the 2016 annual work report of the Remuneration and Assessment Committee, etc.

5.7 Consumer Rights Protection Committee

The Consumer Rights Protection Committee of the Bank consists of three executive Directors (Mr. WANG Tianyu, Mr. SHEN Xueqing and Mr. FENG Tao). The Consumer Rights Protection Committee is chaired by executive Director Mr. WANG Tianyu.

The primary duties of the Consumer Rights Protection Committee include:

- formulating the Bank's development goals, strategies and plans for the protection of consumer rights;
- deploying and coordinating for the protection of consumer rights and conducting research on major issues concerning consumer rights protection;
- regularly communicating with the senior management and heads of departments about consumer rights protection of the Bank, giving comments and suggestions;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- supervising and inspecting the implementation of the annual work plan; and
- other issues authorized by the Board of Directors.

The Consumer Rights Protection Committee was established on August 26, 2017. During the Reporting Period, no meeting was held.

5.8 Corporate Governance Functions

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

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

6 MANAGEMENT

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

The Bank has one President and several Vice Presidents appointed or dismissed by the Board of Directors. The President is accountable to the Board of Directors. The President shall perform the following duties and exercise the following powers:

- to take charge of the operation and management of the Bank, to organize the implementation of the resolutions of the Board of Directors and to report the work to the Board of Directors;
- to submit annual business plans and investment proposals to the Board of Directors and to organize the implementation upon approval by the Board of Directors;
- to draft proposals on the establishment of the Bank's internal management entities;
- to draft the Bank's basic management system;
- to formulate the Bank's specific regulations;
- to propose to the Board of Directors to appoint or dismiss the Vice Presidents, assistant to the President, finance chief and other senior management personnel;
- to determine to appoint or dismiss persons in charge of the internal departments and branches of the Bank other than those to be appointed or dismissed by the Board of Directors; and to determine their salaries, benefits and reward or punishment according to the remuneration reward and punishment scheme fixed by the Board of Directors;
- to authorize senior management members and persons in charge of internal departments and branches to conduct operational activities;
- to decide on the appointment and dismissal of the Bank's staff, and on matters relating to wages, benefits, reward and punishment;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- to adopt emergency measures when any material emergency arises and promptly report them to the banking regulatory and administrative authorities under the State Council, the Board of Directors and the Board of Supervisors; and
- other powers and rights conferred by applicable laws, administrative regulations, departmental rules, regulatory documents, the regulations of the relevant regulatory authorities, the Articles of Association and those authorised by the Board of Directors.

7 BOARD OF SUPERVISORS

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

Composition of the Board of Supervisors

The Board of Supervisors currently consists of nine Supervisors, three for each of shareholder Supervisors, employee Supervisors and external Supervisors (as Mr. XU Changsheng, an external Supervisor, resigned on November 22, 2017 and Mr. Ma Baojun was appointed as an external Supervisor on January 19, 2018, the Bank had eight Supervisors in the interim). The structure of the Board of Supervisors is reasonable, and is sufficiently professional and independent to ensure the effective performance of its supervisory role.

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

Responsibilities and Operating Model of the Board of Supervisors

The primary duties of the Board of Supervisors include:

- to examine the regular reports of the Bank compiled by the Board of Directors and submit its opinion of examination in writing;
- to supervise the performance by and due diligence of the Board and the senior management and its members;
- to question the Directors, the Board and senior management;
- to conduct exit audits of Directors and senior management when necessary;
- to require Directors and senior management personnel to rectify their acts which are detrimental to the interests of the Bank;
- to inspect and supervise the financial activities of the Bank;
- to audit the business decision-making, risk management and internal control of the Bank, if necessary;
- to propose dismissal or initiate legal proceedings against Directors or senior management personnel who violate laws, administrative regulations, the Articles of Association or resolutions of the general meeting;
- to propose to convene an extraordinary general meeting and convene and preside over the general meeting in the event that the Board has failed to fulfil its duty stipulated by the Company Law to convene and preside over the general meeting;
- to make proposals to the general meeting;
- to propose to convene an extraordinary Board meeting;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- to examine financial information such as financial reports, business reports and profit distribution plans proposed to be submitted to the general meeting by the Board, to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals from accounting firms or law firms, etc., if necessary to assist its duties at the expenses of the Bank;
- to make proposals regarding the remuneration (or allowance) of the Supervisors; and
- to exercise any other functions and powers conferred by applicable laws, administrative regulations, departmental rules, regulatory documents and the Articles of Association of the Bank, and other duties authorized by the general meetings.

Operating Model of the Board of Supervisors

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

During the Reporting Period, the Board of Supervisors supervised the 2016 annual performance of the Board of Directors, Directors, the senior management and its members and Supervisors, and gave feedback to the Board of Directors and the senior management.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

7.1 Particulars of Meetings of the Board of Supervisors and Supervisor's Attendance

In 2017, the Board of Supervisors held a total of 6 meetings to consider 18 major resolutions including the 2016 Board of Supervisors' Annual Work Report of Bank of Zhengzhou, the 2016 Annual Financial Accounting Report of Bank of Zhengzhou, Resolution on Disclosure of 2016 Annual Report and Results Announcement of Bank of Zhengzhou and Resolution on the 2016 Profit Distribution Plan of Bank of Zhengzhou, etc.

Convening of the Meeting

Session of the Meeting	Date	Method
The eighth meeting of the fifth session of the Board of Supervisors	March 25, 2017	On-site meeting
The 2017 first extraordinary meeting of the fifth session of the Board of Supervisors	April 18, 2017	By correspondence
The ninth meeting of the fifth session of the Board of Supervisors	May 19, 2017	On-site meeting
The tenth meeting of the fifth session of the Board of Supervisors	August 26, 2017	On-site meeting
The eleventh meeting of the fifth session of the Board of Supervisors	October 28, 2017	On-site meeting
The twelfth meeting of the fifth session of the Board of Supervisors	November 22, 2017	By correspondence

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

Attendance of Supervisors at Supervisor Meetings during the Reporting Period

Supervisor		Required attendance	Attendance in person	Attendance by proxy
Shareholder Supervisor	ZHAO Lijuan	6	6	—
	ZHU Zhihui	6	6	—
	MENG Jun	6	5	1
External Supervisor	TANG Yunwei	6	6	—
	Liu Yuhui	3	1	2
	XU Changsheng	5	5	—
	SONG Ke	3	3	—
Employee Supervisor	DUAN Ping	6	6	—
	ZHANG Chungge	6	6	—
	CUI Huarui	6	6	—

Attendance at General Meetings During the Reporting Period

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

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

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

7.2 Operation of Special Committees of the Board of Supervisors

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

The Nomination Committee of the Board of Supervisors

Primary duties of the Nomination Committee include:

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

In 2017, the Nomination Committee of the Board of Supervisors held a total of 3 meetings to consider and approve the resolutions including the Resolution in Relation to the Recommendation of Mr. SONG Ke as a Candidate for External Supervisor of the Fifth Session of the Board of Supervisors of Bank of Zhengzhou, the Resolution in Relation to Assessment of Performance of the Board of Directors by the Board of Supervisors of Bank of Zhengzhou in 2016, the Resolution in Relation to Assessment of the Performance of the Directors and Independent Directors by the Board of Supervisors of Bank of Zhengzhou in 2016, the Resolution in Relation to Assessment of the Performance of the Supervisors and External Supervisors by the Board of Supervisors of Bank of Zhengzhou in 2016, the Resolution in Relation to Assessment of the Performance of the Senior Management by the Board of Supervisors of Bank of Zhengzhou in 2016, the Resolution in Relation to Assessment of the Performance of the Senior Management Members by the Board of Supervisors of Bank of Zhengzhou in 2016, the Resolution in Relation to the Recommendation of Mr. Ma Baojun as a Candidate for External Supervisor of the Fifth Session of the Board of Supervisors of Bank of Zhengzhou, the Resolution in Relation to 2018 Work Plan of the Nomination Committee of the Fifth Session of the Board of Supervisors of Bank of Zhengzhou.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

Supervision Committee of the Board of Supervisors

The primary duties of the Supervision Committee include:

- formulating plans for supervision of financial activities of the Bank and implementing relevant inspection;
- supervising the Board of Directors to adopt prudent business philosophy and value standards and formulating development strategies in line with the actual situations of the Bank;
- monitoring and reviewing the operation strategy, risk management and internal control of the Bank; and
- any other matters authorized by the Board of Supervisors. The Supervision Committee of the Board of Supervisors may conduct investigation on special affairs of the Bank, and the results of the investigation shall be reported to both of the Board of Supervisors and the Board of Directors.

During the Reporting Period, the Supervision Committee of the Board of Supervisors held a total of 2 meetings to review and approve the resolutions including the Resolution in Relation to the Plan for the Auditing of the Economic Responsibility of the Departing Mr. BAI Xiaofeng (former vice president) of Bank of Zhengzhou and the Resolution in Relation to the 2018 Work Plan for the Supervision Committee of the Fifth Session of the Board of Supervisors of Bank of Zhengzhou Co., Ltd., etc.

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

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

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

Training and Research of Directors

Each of Directors could dedicate to his/her duties and comply with principles of integrity, develop their knowledge and sharpen their expertise through participation in continuous professional development in various ways. During the Reporting Period, WANG Tianyu, the Chairman, SHEN Xueqing, an executive Director and the President, and FENG Tao, the Vice President, attended the seminar concerning the macroeconomic situation and the latest development of the finance sector led by Mr. WANG Shihao, an independent non-executive Director, took part in the research into city commercial banks including Bank of Guiyang and Bank of Chengdu and made surveys on its branches and subsidiaries. They further studied books relating to the governance of listed companies and the finance sector. LIANG Songwei, a non-executive Director, enrolled in training courses in respect of securities, funds, financial derivatives and senior management leadership organized by professional institutions, and read some relevant books. LI Huaizhen, an independent non-executive Director, not only enrolled in the training courses in respect of the Listing Rules in Hong Kong given by certain professional institutions, but also read some relevant books. XIE Taifeng, an independent non-executive Director, attended the China Capital Markets Forum held by professional institutions and training courses with regard to compliance operation, internal control and management of commercial banks, he also gained information from some relevant books. FAN Yutao, XU Jingnan, ZHANG Jingguo, JI Hongjun, MA Jinwei and YU Zhanglin, being non-executive Directors, WANG Shihao, WU Ge and CHAN Mei Bo Mabel, being independent non-executive Directors, studied relevant books.

Training and Research of Supervisors

During the Reporting Period, certain Supervisors participated in the seminar concerning the macroeconomic situation and the latest development of the finance sector led by WANG Shihao, an independent non-executive Director. During the Reporting Period, some of the Supervisors took part in the research into the Bank of Guiyang. Moreover, the Board of Supervisors made respective surveys on Jiuding Financial Leasing Company, five county banks (including Zhongmu County Bank) and six branches and sub-branches (including Shangqiu Branch). In the course of the survey, the Supervisors and the relevant person-in-charge and employees conducted in-depth communication and exchange.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

10 JOINT COMPANY SECRETARIES

Mr. FU Chunqiao and Ms. LEUNG Wing Han Sharon, vice president of SW Corporate Services Group Limited, have been appointed by the Bank as its joint company secretaries. Ms. LEUNG Wing Han Sharon's main contact person at the Bank is Mr. FU Chunqiao, another joint company secretary. For the year ended December 31, 2017, both of Ms. LEUNG Wing Han Sharon and Mr. FU Chunqiao have received not less than 15 hours of relevant professional training in accordance with the requirement under Rule 3.29 of the Listing Rules.

11 COMMUNICATION WITH SHAREHOLDERS

Investor Relations

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

For enquiries to the Board, investors may contact: the General Office of the Board of Directors of Bank of Zhengzhou Co., Ltd.

Address: 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan, PRC

Tel: +86-371-67009199 Fax: +86-371-67009898

Email: ir@zzbank.cn

Information Disclosure

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

In accordance with the requirements of the Listing Rules and Measures for the Information Disclosure of Commercial Banks, the Bank continuously improves the timeliness, accuracy and completeness of the information to be disclosed. During the Reporting Period, the Bank published relevant announcements and circulars on the website of the Hong Kong Stock Exchange from time to time under the requirements of the Listing Rules. Meanwhile, the full texts of the annual reports and interim reports in both English and Chinese are available on the website of the Bank, and the annual reports and interim reports are available for review by the investors and stakeholders in the General Office of the Board of Directors and principal outlets of the Bank.

12 SHAREHOLDERS' RIGHTS

12.1 Convening of General Meetings

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

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

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

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

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

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

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

12.2 Putting Forward Proposals at General Meetings

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

12.3 Convening of Extraordinary Board Meeting

The Chairman of the Board shall convene and preside over an extraordinary Board meeting within 10 days upon receipt of the proposal from shareholders representing more than one tenth voting rights.

12.4 Making inquiries to the Board

Shareholders are entitled to supervise the business activities of the Bank, and make recommendations or inquiries.

Shareholders are entitled to access 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 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, President and other 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;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- (5) minutes of shareholders' general meetings;
- (6) special resolutions of the Bank;
- (7) the latest audited financial statements, and reports of the Board of Directors, auditors and the Board of Supervisors; and
- (8) a copy of the latest annual return filed with the Chinese State Administration for Industry and Commerce or other competent authorities.

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.

13 EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

Upon consideration and approval at the 2016 Annual General Meeting convened on May 19, 2017, the Bank reappointed KPMG and KPMG Huazhen LLP as the Bank's international and domestic auditors for 2017, whose term of office would end after the Bank's 2017 Annual General Meeting. The Bank did not change any auditor during the past three years.

In 2017, the Bank agreed to pay KPMG Huazhen LLP and KPMG RMB4.40 million in total as remuneration for auditing the financial statements for the year and the A Share IPO reporting. Fees relating to the review of the half-year financial statements and the issuance of the Offshore Preference Shares in total were RMB1.55 million.

The Board and the Audit Committee under the Board agreed on the selection and appointment of the external auditors of the Bank without any disagreement.

14 RISK MANAGEMENT AND INTERNAL CONTROL

14.1 Procedures for identification, assessment and management of material risks

Based on the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and its schedules issued by the CBRC, risks and relevant terminology defined by the Basel Committee, practice of the domestic and overseas peers as well as its own situation, the Bank identifies, measures and controls various overall quantitative and non-quantitative risks which may arise from the interaction between business strategies, product portfolios, client demands and the macro-economic environment.

Taking into account the capital occupancy based on risk types, risks of banks determined by regulators and capital regulatory requirements together with results from identifying and assessing risk events, the Bank collects and publishes risk warnings, draws up risk examples, assesses risk events and then determines material risks for the purpose of identifying its material risks, and subsequently makes an assessment and analysis of them with risk measurement approaches and techniques.

14.2 Characteristics of the risk management system

In the face of the increasingly complicated internal and external environment, the Bank has designed and optimized the risk management system in a comprehensive manner in accordance with the strategic development plan, in view of the actual operating conditions and with reference to the practices of advanced banks in China, mainly reflected in:

1. cultivating a prudent risk culture, building comprehensive risk management awareness, improving the risk management concepts focusing on risk preference;
2. improving the organizational structure of risk management, so as to ensure a vertical and independent risk management to effectively strengthen the ability to prevent risk;
3. building a risk information database covering the Bank, forming a risk data and resource pool and fully exploiting the value of such data;
4. enhancing the ability to quantify risks, speeding up the development and application of the measurement model of risks, enhancing the stability and reliability of the measurement, so as to support the decision on risk management of the Bank.

14.3 Characteristics of the internal control system

In accordance with Basic Norms of Corporate Internal Control (《企業內控基本規範》) and the Guidelines on Internal Control of Commercial Banks (《商業銀行內部控制指引》) and other laws and regulations and regulatory rules, the Bank established an organizational structure centering on general meetings, the Board of Directors, the Board of Supervisors, and the senior management as well as an internal control system involving all staff; established a balancing mechanism including vertical authorization and horizontal supervision among superiors and subordinates and various positions according to the organizational structure hierarchy and the establishment of positions; established an internal control system covering various businesses and management activities of the Bank in accordance with the laws and regulations and regulatory requirements, and amended and supplemented pursuant to the laws and regulations as well as changes in the external operating environment and the needs of risk control in a timely manner.

The Bank put emphasis on internal control culture development and spared no effort in creating a sound internal control environment that is characterised by honesty and compliance. The Bank continued to enrich and improve various risk management systems and internal control measures, enhance the identification, measurement, control and monitoring of various types of risks (credit risk, market risk, liquidity risk, operational risk, etc.), attach importance to internal control of credit business, finance and accounting, capital business, intermediary business and related party transactions, improve the scientific and forward-looking management of various types of risks to guarantee the stable operation of management work.

The Bank has established a comprehensive internal control assessment system. In effectively segregating duties, the Board, the Board of Supervisors and the senior management assess the operation and management activities of each level and business line based on their functions: internal audit office of the Board conducts internal audit regularly, assessing internal control; the Board of Supervisors keeps improving the supervision mechanism, and procures the Board and the senior management of the Bank to fulfil their internal control responsibilities; the compliance department supervises internal control and compliance by daily inspections and ad-hoc inspections, gives risk warnings and facilitates the improvement of internal control measures.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

14.4 Responsibility of the Board on Risk Management

In accordance with laws and regulations including the Overall Risk Management Guidelines for Commercial Banks (商業銀行全面風險管理指引) and the Guidelines on Internal Control of Commercial Banks as well as relevant requirements of the Hong Kong Stock Exchange, the Board has formulated the Basic Rules of Overall Risk Management in Bank of Zhengzhou (鄭州銀行全面風險管理基本制度), the Administrative Measures for Risk Preference Management in Bank of Zhengzhou (鄭州銀行風險偏好管理辦法), the Administrative Measures for Risk Limit Management in Bank of Zhengzhou (鄭州銀行風險限額管理辦法). It not only established and implemented a risk management and internal control system, but is also responsible for timely reviewing the effectiveness of such rules and system, reviewing risk control principles, objectives and policies of the Bank, clearly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the internal control system.

14.5 Effectiveness evaluation

In accordance with the Guidelines on Internal Control of Commercial Banks issued by the CBRC and C.2.1 and C.2.2 of the CG Code, the Board oversees the Bank's risk management and internal control systems on an ongoing basis, ensures that a review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries has been conducted at least annually. The Board is of the opinion that the risk management and internal control system established and implemented by the Bank in 2017 is adequate and effective. The risk management and internal control system of the Bank is designed to manage the risk of failing to meet business targets rather than eliminating such risk, and only provides reasonable but not absolute assurance for not making material misstatements and not causing severe losses.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

15 INSIDE INFORMATION MANAGEMENT

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

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

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

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

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

16 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, in relation to the non-public issuance of the Offshore Preference Shares, pursuant to the Guidance Opinions of the State Council on the Launch of Preference Shares Pilot Scheme, the Trial Administrative Measures on Preference Shares, the Guidance Opinions on Issuance of Preference Shares by Commercial Banks for Replenishing Tier-one Capital jointly issued by the CBRC and CSRC, the Guidance Opinions of the CBRC on Capital Instruments Innovation of Commercial Banks, Guidelines on the Corporate Governance of Commercial Banks and other relevant laws, regulations and regulatory documents and taking into account the plan of the non-public issuance of the Offshore Preference Shares and the situation of the Bank, the Bank made certain amendments to the Articles of Association.

The proposal regarding the amendments to the Articles of Association was considered and approved at the 2016 Annual General Meeting of the Bank on May 19, 2017 and obtained the approval from the CBRC Henan Office on June 19, 2017. The amendments to the Articles of Association have taken effect upon the completion of the non-public issuance of the Offshore Preference Shares. For details of the amendments to the Articles of Association, please refer to the announcement dated March 27, 2017 and the circular dated April 26, 2017 of the Bank.

17 SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

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

18 PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, the Bank has conscientiously implemented the requirements from the regulatory authorities such as the CBRC, the PBoC and the China Banking Association and fully utilized the coordination mechanism of various departments and carried out the protection of consumer rights in an orderly manner.

18.1 Strengthening the construction of the consumer rights protection system

With the tenet of “protecting consumer rights and maintaining stable financial order”, the Bank incorporated the concepts and requirements of consumer rights protection into its various systems, and established a relatively sound system on consumer rights protection covering product R&D and sales, service standards, consumer information protection, financial knowledge education for consumers, protection of the property and personal safety of consumers as well as customer complaint handling by way of regulating business process, improving service quality, strengthening the staff management and perfecting the confidential system. It has initially set up an internal performance-based evaluation system on consumer rights protection, thus providing strong institutional guarantee for conducting consumer rights protection.

18.2 Developing a sound product risk evaluation mechanism and reducing investment risk of consumers

Firstly, in terms of product approval, the Bank has established the qualification and process for product approval. Taking into account its development strategy, input-output and risk profiles, the Bank introduced review processes (including product description, risk assessment, and discussion and voting by committee members) into the development stage and introduced an exit mechanism in the post-assessment stage; secondly, the Bank devoted more efforts in risk assessment for new products. The Bank established the Innovation Management Committee to conduct the evaluation on the product risks before project establishment and after implementation, and streamlined product risks through risk evaluation to improve its risk resistance, reduce new product risk and maximize the protection of investment interests of financial consumers; thirdly, in compliance with the principle of prioritizing the system, the Bank formulated and issued the corresponding internal control system before new products were launched in the market to specify management requirement and operation rule and conduct the evaluation after the establishment of the system in accordance with the product implementation, thus reducing new product risk systematically.

18.3 Improving service standards, enhancing promotional efforts and actively assuming responsibilities

Firstly, all branches of the Bank were required to standardize their operation processes, spare no efforts to improve their service standards and regulate the behavior of their staff through multiple means and methods such as malpractice prevention by manpower, technologies and facilities so as to practically protect consumers' legal interest in strict compliance with the system requirements; secondly, the Bank carried out various promotional campaigns including prevention of telecommunications fraud and illegal fund-raising, the promotion of Consumer Rights Protection Day (March 15), "Financial Knowledge Month (金融知識普及月)", "Financial Knowledge for Everyone (金融知識進萬家)", and "Ten Thousand Mile Journey for Financial Knowledge (金融知識萬裡行)" throughout the year, and promoted popular financial knowledge to financial consumers through multiple means and methods including official website and LED Panels and proactively facilitated the establishment of a special financial knowledge promotion area in all branch offices so as to expand the audience reach, improve social influence and strengthen the awareness of the public to prevent the violation of laws and regulations in respect of financial activities; thirdly, the Bank continually amended and perfected relevant systems in relation to the complaints on its businesses and services, timely summarised and dissected multiple and frequent complaints arising from the operation and process of business lines, urged all departments to formulate corrective and preventive measures, and evaluated the effect of rectification, so as to avoid the recurrence of events of similar type or nature.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS

The Board hereby present the report of the Board of Directors together with the audited financial statements of the Group for the year ended December 31, 2017.

1 PRINCIPAL BUSINESS AND BUSINESS REVIEW

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

Further discussion and analysis of the business review as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong), including the key risks and uncertainties faced by the Group, the possible future development plan of the Group's business and the Bank's compliance with laws and regulations, are set out in the sections headed "Highlights of Accounting Data and Major Financial Indicators", "Management Discussion and Analysis", "Significant Events" and "Report of the Board of Supervisors" of this annual report. Such discussions form an integral part of this "Report of the Board of Directors".

2 ANNUAL GENERAL MEETING AND DIVIDENDS

2.1 Annual general meeting

The Bank proposes to hold the 2017 Annual General Meeting on June 15, 2018 (Friday). In order to determine the list of Shareholders who are entitled to attend and vote at the 2017 Annual General Meeting, the Bank's register of members will be closed from May 16, 2018 (Wednesday) to June 15, 2018 (Friday), both days inclusive, during which period no transfer of Shares will be effected. The Shareholders whose names appeared on the Bank's register of members on June 13, 2018 (Wednesday) shall be entitled to attend and vote at the 2017 Annual General Meeting. In order to be eligible to attend and vote at the 2017 Annual General Meeting, all transfer documents together with relevant share certificates and other appropriate documents shall be sent for registration to the office of the Board of the Bank at 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province, the PRC (for holders of Domestic Shares) or to the H Share Registrar, namely, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) before 4:30 p.m. on May 15, 2018 (Tuesday).

The Bank will despatch the notice and circular for the 2017 Annual General Meeting in due course.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

2.2 Dividends

Pursuant to the requirements under Article 18 of the Measures for the Administration of Securities Issuance and Underwriting (《證券發行與承銷管理辦法》) issued by the CSRC, which provides that, “If any profit distribution scheme or the scheme of capitalisation from capital public reserve has not been submitted to the general meeting for Shareholders’ voting, or such scheme has not been implemented upon voting and approval by Shareholders at the general meeting, the listed company shall issue the securities after such scheme is implemented. Before the relevant plan is implemented, the lead underwriter shall not underwrite the securities issued by the listed company”, and in light of the fact that the A Share Offering of the Company had entered into the preliminary prospectus disclosure and update stage, a dividend distribution to the Shareholders for the year ended December 31, 2017 would affect the A Share issuance. Accordingly, the Board proposed not to distribute final dividend to all Shareholders for the year of 2017 at the Board’s meeting held on March 22, 2018. The proposal of non-distribution of dividend would be proposed to the 2017 Annual General Meeting as at June 15, 2018 (Friday) for consideration. The non-executive independent Directors also gave an independent opinion on this profit distribution scheme.

3 SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

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

4 ISSUANCE OF DEBT SECURITIES

For details of the issuance of debt securities of the Bank, please refer to the section headed “Significant Events”.

5 RESERVES

Details of movements in the reserves of the Bank for the year ended December 31, 2017 are set out in the consolidated statement of changes in equity.

6 PROPERTY AND EQUIPMENT

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

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

7 CONNECTED TRANSACTIONS

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

The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard, and its interpretations by the IASB. Some of the related party transactions set out in Note 39 to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Listing Rules, but none of them constitutes a discloseable connected transaction as defined under the Listing Rules.

8 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details regarding the Directors, Supervisors and senior management of the Bank are set out in the section headed "Directors, Supervisors, Senior Management, Staff and Institutions" in this annual report.

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

None of the Directors or Supervisors of the Bank holds any interest in any business which competes or is likely to compete, whether directly or indirectly, with that of the Bank.

10 REMUNERATION OF THE DIRECTORS AND SUPERVISORS AND RETIREMENT BENEFITS

Details of the remuneration of the Directors and Supervisors are set out in Note 9 to the financial statements. Retirement benefits offered by the Bank to employees are set out in Note 33 to the financial statements.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

11 SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

As at December 31, 2017, the interests of Directors, Supervisors and chief executive officer in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules were set out as follows:

Name	Position	Class of Shares	Nature	Number of Shares held directly or indirectly (Shares) (Long position)	Percentage of the relevant class of Shares in issue (%)	Percentage of all ordinary Shares in issue (%)
WANG Tianyu	Director	Domestic Shares	Beneficial owner	25,003	0.00066	0.00047
ZHU Zhihui	Supervisor	Domestic Shares	Interest of controlled corporation	199,046,474	5.23	3.74
DUAN Ping	Supervisor	Domestic Shares	Beneficial owner	4,000	0.0001	0.00008
ZHANG Chungu	Supervisor	Domestic Shares	Beneficial owner	14,056	0.0004	0.0003

Save as disclosed above, none of the Directors, Supervisors or chief executive held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at December 31, 2017.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

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

For the year ended December 31, 2017, neither the Bank nor any of its subsidiaries entered into any significant transaction, arrangement or contract in which the Directors or Supervisors or entity connected with the Directors or Supervisors directly or indirectly had a material interest.

14 ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

15 MANAGEMENT CONTRACTS

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

16 PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE BANK

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

17 PRE-EMPTIVE RIGHTS

During the Reporting Period, the Bank did not have provisions in respect of pre-emptive rights in the Articles of Association and under PRC law.

18 DONATIONS

During the Reporting Period, the Bank made charitable and other donations in an aggregate sum of approximately RMB4,393,800.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

19 EQUITY-LINKED AGREEMENTS

During the Reporting Period, other than Offshore Preference Shares, the Bank had not entered into any equity-linked agreements.

Upon approvals by the CBRC Henan Office and the CSRC, the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1.191 billion on October 18, 2017 through a private offering on the overseas market. Pursuant to regulations including the Measures on Capital Management of Commercial Banks (Trial) and the Trial Administrative Measures on Preference Shares, a commercial bank shall set up the provisions of coercive conversion of preference shares into ordinary shares, under which the commercial bank shall convert the preference shares into ordinary shares as contractually agreed in case of a trigger event. Such trigger event happens when the common equity tier 1 capital adequacy ratio has decreased to 5.125% (or below) and when the CBRC determines that the bank will not be able to exist if shares of the bank are not transferred or written down, or when relevant regulators determine that the bank will not be able to exist if there is no capital injection from public sectors or supports with coordinative effects. The Bank, according to relevant regulations, has formulated provisions of trigger events under which Offshore Preference Shares shall be coercively converted into H Shares. If such trigger events happen to the Bank and all Offshore Preference Shares need to be coercively converted into H Shares in accordance with their initial conversion price, the total amount of the Offshore Preference Shares which would be converted into H Shares will not exceed 1,719,533,921 H Shares. During the Reporting Period, the Bank did not experience any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares.

20 RELATIONS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Bank treats its employees as the most valuable asset of the Bank and pays great attention to safeguarding the legitimate rights and interests of its employees, striving to establish a harmonious and stable employment relationship. The Bank enters into “labor contracts” with its employees in accordance with the relevant laws, and continuously improves the relevant labor employment system and employee security system. By conscientiously implementing the national policies and regulations on salary and welfare, the Bank has developed the “Administrative Measures on Salary and Welfare of Bank of Zhengzhou”, under which it pays employees full salaries on time, contributes various social insurance and housing provident fund and built a multi-level pension and medical security system. The Bank also keeps helping employees to enhance their value through optimizing position system for smooth career development path and providing them with a wide range of professional training.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

The Bank adheres to a customer-centered approach, actively promotes 6S management of service outlets and strengthens the popularization of service standards at outlets to improve customer service levels. To protect consumer rights, the Bank integrated the concept and requirements of consumer protection into systems and established a consumer rights protection system involving consumer services, information privacy, financial education, and customer complaints handling. The Bank pays attention to communication with customers, keeping in touch through letters, telephone, fax, direct visits, the internet and other forms of communication channels and provides customers with round-the-clock telephone banking services in China through the unified customer service telephone line 4000-967585.

Adhering to the principles of openness, fairness and impartiality, the Bank selects suppliers by means of bidding and other forms, and maintains good communication and cooperation with various suppliers.

21 PUBLIC FLOAT

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

22 CORPORATE GOVERNANCE

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

23 MAJOR DEPOSITORS AND BORROWERS

The Bank is not dependent on a single major depositor/borrower. As at the end of the Reporting Period, the deposits balance of the five largest depositors and loan balance of the five largest borrowers of the Bank represented no more than 30% of the total deposits balance, gross loans and advances of the Bank. The Directors of the Bank and their close associates or or any Shareholder which to the knowledge of the Directors own more than 5% of the number of issued Shares do not have any interest in the aforementioned five largest depositors/borrowers.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

24 OTHER MATTERS

According to provision A.1.8 of the CG Code, the Bank shall maintain appropriate insurance to cover the potential litigation initiated against the Directors. In order to comply with such a provision, the Bank has purchased appropriate liability insurance for the Directors and provided them with an indemnity for liabilities incurred during the operations of the Bank for the year ended December 31, 2017.

As far as the Board is aware, the Bank has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Bank. In the meantime, the Bank is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Bank endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

During the Reporting Period, the Bank was not aware of any Shareholders having waived or agreed to any arrangement to waive dividends.

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

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

During the Reporting Period, neither the Bank nor any of its subsidiaries had not accepted services provided by a controlling Shareholder or its subsidiaries.

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

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

CHAPTER X REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors was dedicated to fulfilling its duties diligently in the spirit of being responsible for the Shareholders and employees in accordance with the Company Law of the People's Republic of China, the Guidelines on the Corporate Governance of Commercial Banks, the Articles of Association and the requirements of the rules and regulations to the Board of Supervisors, and formed a relatively complete supervision system covering the supervision over meetings, strategies, financial affairs and performance assessment, which had positive driving effects in the advancement of the Bank's steady business development, enhancement of risk management and control and improvement of the corporate governance structure. The foregoing practices promoted the standardized operation and sound development of corporate governance.

1 MAJOR WORK OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors took active part in the development of “three Boards and one Management”, and convened 6 meetings of the Board of Supervisors and 5 special committee meetings of the Board of Supervisors to consider 18 resolutions concerning business operation, internal control, risk management, corporate governance and the assessment of the performance of duties of the Directors and the Supervisors and review 20 reports concerning internal audit, connected transactions and quality of assets. During the Reporting Period, members of the Board of Supervisors attended the general meetings and were present at all the on-site meetings of the Board, and supervised compliance with the relevant laws and regulations, voting procedures, the Directors' attendance of, opinions expressed on and voting results of the general meetings and Board meetings, respectively. During the Reporting Period, the attendance of and presence at various meetings and activities by members of the Board of Supervisors furnished the Board of Supervisors with access to information on the operation and management of the Bank in all aspects in a timely manner, thereby substantially consolidating its supervision functions.

During the Reporting Period, the Board of Supervisors continuously optimized its organizational structure and made adjustment to the members of external Supervisors by appointing a new one. The Board of Supervisors consists of 9 Supervisors, 3 for each of staff Supervisors, shareholder Supervisors and external Supervisors (during the period from the resignation of Mr. XU Changsheng as an external Supervisor on November 22, 2017 to the appointment of Mr. MA Baojun as an external Supervisor on January 19, 2018, the Board of Supervisors consisted of 8 Supervisors). In addition, the Board of Supervisors established the Supervisory Committee and the Nomination Committee pursuant to law, and each of its committees has 3 members, chaired by an external Supervisor, thus satisfying the regulatory requirements on the composition and proportion of members of the Board of Supervisors.

CHAPTER X REPORT OF THE BOARD OF SUPERVISORS (Continued)

During the Reporting Period, the external Supervisors proactively familiarized themselves with the operations and management of the Bank, and gave opinions and suggestions on significant matters by attending meetings of the Board of Supervisors, convoking and convening special committee meetings of the Board of Supervisors, being present at the Board meetings, participating in the Board of Supervisors' investigations and surveys conducted (on a collective or separate basis) at branch level. During the adjournment of the Board of Directors and the Board of Supervisors, the external Supervisors were able to review various documents and reports of the Bank and exchange opinions with the Board of Directors and senior management on any findings in a timely manner, thereby playing an active role in performing their supervisory duties.

2 INDEPENDENT OPINIONS ON RELEVANT MATTERS

Performance of duties by the Board of Directors and Senior Management and Its Members

During the Reporting Period, the Board of Supervisors completed the 2016 report of assessment on the performance of the Board, Directors, senior management and its members as required and reported the performance assessment results to the general meetings and regulatory authorities. The Board of Supervisors was of the view that the Board of Directors and senior management performed their duties according to the Guidelines on the Corporate Governance of Commercial Banks and Articles of Association. In promoting the listing of the Bank and its major business decisions, they displayed solidarity, vision, prudence and steady progress, leading the Bank to achieve a new leap. The senior management continued to improve their capability of implementation of strategic decisions, established and finalised various measures, ensuring the completion of various jobs for the whole year.

Compliance with laws and regulations in operations

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

CHAPTER X REPORT OF THE BOARD OF SUPERVISORS (Continued)

Truthfulness of financial report

During the Reporting Period, upon careful review of the 2017 annual report by all Supervisors in a down-to-earth manner and in the spirit of being responsible to all Shareholders, the Board of Supervisors was of the view that procedures for the preparation of the 2017 annual report by the Board of the Bank complied with the laws, administrative regulations and the requirements of the CSRC; the report truthfully, accurately and completely reflected the actual situation of the Bank; and there were no false representations, misleading statements or material omissions contained therein.

Related party transactions

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

Internal control

During the Reporting Period, the Board of Supervisors considered that the Bank had established a relatively comprehensive corporate governance structure, formulated relatively complete management systems relating to corporate governance and internal control, and was capable of improving the foregoing in accordance with the actual situation of the Bank and regulatory requirements. The internal control system of the Bank was carried out smoothly, complied with the relevant standardized requirements of laws and regulations on the management of corporate internal control systems, and completely, truthfully and objectively reflected the establishment and operation of the internal control system of the Bank.

Implementation of resolutions of general meetings

During the Reporting Period, the Board of Supervisors supervised the implementation of the resolutions of general meetings, and considered that the Board was capable of earnestly implementing the relevant resolutions of general meetings and did not take any action detrimental to the interests of Shareholders.

CHAPTER XI SIGNIFICANT EVENTS

1 ISSUANCE AND REPURCHASE OF BONDS

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

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

The Bank issued the first tranche of the tier II capital bonds in an amount of RMB3 billion in the national interbank bond market on December 19, 2016, with a fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.10%.

The Bank issued the second tranche of the tier II capital bonds in an amount of RMB2 billion in the national interbank market on March 30, 2017, with a fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.80%.

The Bank issued green financial bonds (Bonds code: 1720065) in an amount of RMB3 billion on September 5, 2017, with a maturity term of three years and a coupon rate of 4.7%. The proceeds from the issuance of the bonds will be specially used for green industry projects as defined in the List of Projects Supported by Green Financial Bonds (《綠色金融債券支持項目目錄》) formulated by the Green Financial Committee of China Financial Society (中國金融學會綠色金融專業委員會).

2 SIGNIFICANT LITIGATION AND ARBITRATION

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

3 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

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

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

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

6 SIGNIFICANT CONTRACTS AND INFORMATION ON THEIR PERFORMANCE

During the Reporting Period, the Bank had no significant contracts and information on their performance.

7 AUDIT REVIEW

The financial statements for the year ended December 31, 2017 prepared by the Bank according to the IFRS were audited by KPMG, Certified Public Accountants, and the auditor's reports were unqualified. The annual report was reviewed by the Audit Committee of the Board and the Board of Directors of the Bank.

8 SHARE OPTION SCHEME AND ITS IMPLEMENTATION DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not implement any share option scheme.

CHAPTER XI SIGNIFICANT EVENTS (Continued)

9 SIGNIFICANT ACQUISITION AND DISPOSAL OF ASSETS AND MERGERS OF BUSINESSES

In November 2016, the Bank entered into agreements with Zhengzhou Zhongxing Industry Co., Ltd. (鄭州中興實業集團有限公司), WANG Zhen (王珍), WANG Ge (王歌), WEI Hong (魏紅), CHEN Yahui (陳亞輝), LI Rongli (李榮麗), WANG Luping (王魯平) and ZHANG Yuling (張玉玲), respectively, agreeing to acquire a total of 31.5% of the shares in Xinmi Zhengyin County Bank, representing 31.5 million shares in total, held by them at the price of RMB1.1 per share. This share transfer was completed in January 2017, and Xinmi Zhengyin County Bank has since then been held as to 51.5% by the Bank.

Xinmi Zhengyin County Bank was established on January 28, 2011, with a registered capital of RMB100 million. The Bank as a sponsor contributed RMB20 million and held 20% of the shares in Xinmi Zhengyin County Bank. Pursuant to the 2015 annual audit report of Xinmi Zhengyin County Bank, as at December 31, 2015, the net assets per share of Xinmi Zhengyin County Bank was RMB1.23.

10 PROFIT DISTRIBUTION DURING THE REPORTING PERIOD

At the 2016 Annual General Meeting, the Bank considered and approved the 2016 profit distribution plan. Cash dividends of RMB1,171 million (tax inclusive) or RMB2.20 per 10 Shares (tax inclusive) was declared to all Shareholders. Dividends of the Bank for 2016 were paid on June 15, 2017.

CHAPTER XII INTERNAL CONTROL AND INTERNAL AUDIT

1 INTERNAL CONTROL

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

We developed a system of three levels, namely by-laws/basic system, administrative measures and practices/plans/rules, that suits our business characteristics in accordance with the Guidelines on Internal Control of Commercial Banks. We set up detailed internal control systems for our business that generally cover all business and management activities including credit business, intermediary business, financial market, asset management, retail business, operations, e-banking, trade financing, security and safety, human resources, risk management and internal audit, etc., based on the objectives, principles and basic requirements of internal control. We constantly adjust and optimise our systems and work flows. During the Reporting Period, we made 105 new supplements, 135 new amendments and 42 repeals to our internal control system.

We put emphasis on internal control culture development and spare no effort in creating a sound internal control environment that is characterised by honesty and compliance. The Bank continually enhances its performance appraisal system to promote standardized operation based on appraisal and improve internal control mechanisms. The Bank continues to enrich and improve various risk management systems and internal control measures, enhance the management of various types of major risks (credit risk, market risk, liquidity risk and operational risk, etc.). The Bank developed a complete contingency plan system for business continuity to guarantee the stable operation of management work.

CHAPTER XII INTERNAL CONTROL AND INTERNAL AUDIT (Continued)

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

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

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

CHAPTER XII INTERNAL CONTROL AND INTERNAL AUDIT (Continued)

2 INTERNAL AUDIT

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

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

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

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the Shareholders of Bank of Zhengzhou Co., Ltd.

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

OPINION

We have audited the consolidated financial statements of Bank of Zhengzhou Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") set out on page 186 to 353, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

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

INDEPENDENT AUDITOR'S REPORT (Continued)

KEY AUDIT MATTERS

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

Impairment of loans and receivables	
<i>Refer to note 19, 20(3) and 21 to the consolidated financial statements and the accounting policies in note 2(7).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>Loans and receivables include loans and advances to customers, financial investments classified as loans and receivables and finance lease receivables.</p> <p>Impairment of loans and receivables is a subjective area due to the level of judgement applied by management in determining provisions.</p> <p>From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining provision for impairment losses were those where impairments were derived from individual cash flow assessments and collective assessment models, where the loans and receivables were unsecured or where the loans and receivables were subject to potential collateral shortfalls.</p>	<p>Our audit procedures to assess impairment of loans and receivables included the following:</p> <ul style="list-style-type: none">• Understanding and assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of loans and receivables, the credit grading process and the measurement of impairment allowances for loans and receivables.• comparing the total balance of the loan and receivables grading report used by management to assess the allowances for impairment with the general ledger and comparing individual loan and receivables information, on a sample basis, with the underlying loan and receivables agreements and other related documentation to assess the accuracy of the information in the loan and receivables grading report, involving our internal IT specialists to assess the logic and compilation of the overdue loan report;

INDEPENDENT AUDITOR'S REPORT (Continued)

KEY AUDIT MATTERS (Continued)

Impairment of loans and receivables	
Refer to note 19, 20(3) and 21 to the consolidated financial statements and the accounting policies in note 2(7).	
The Key Audit Matter	How the matter was addressed in our audit
<p>Individual provisions for corporate loans' impairment losses are estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors.</p> <p>Whilst the Group performs valuations of property and other illiquid collateral, enforceability, timing and means of realisation also affect the ultimate collectability and thereby the amount of impairment allowances as at the reporting date.</p> <p>The determination of the collective provision for impairment losses is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The Group's collective provisions for impairment losses are derived from estimates including the Group's historical losses for loans and receivables, the loss emergence period (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors.</p>	<ul style="list-style-type: none"> performing credit review by selecting a risk-based sample. For un-impaired loan and receivables, we analysed the loan and receivables portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic situation with reference to borrowers with adverse financial press coverage. We also selected samples based on other risk criteria and from the Group's watch list and overdue report. We selected further samples for credit review from impaired loans and receivables and overdue but not impaired loans and receivables. performing credit review procedures for the sample of loans and receivables selected as mentioned above, which included making enquiries of the credit managers about the customers' business operations, reviewing customers' financial information, researching market information about customers' businesses; evaluating management's assessment of the value of any collateral held, assessing the forecast cash flows for impaired loans and receivables, evaluating the viability of the Group's recovery plans, comparing management's valuation of collateral to market prices, evaluating the timing and means of realisation of collateral and considering other sources of repayment asserted by management.

INDEPENDENT AUDITOR'S REPORT (Continued)

KEY AUDIT MATTERS (Continued)

Impairment of loans and receivables	
Refer to note 19, 20(3) and 21 to the consolidated financial statements and the accounting policies in note 2(7).	
The Key Audit Matter	How the matter was addressed in our audit
We identified impairment of loans and receivables as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.	<ul style="list-style-type: none">evaluating the validity of the models used and assumptions adopted in the Group's calculation of the collective provisions for impairment losses by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Group's other internal records and our prior year records. As part of these procedures, we considered the Group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the accounts to impaired loans and receivables. Having considered the above, we reviewed the calculation of collective provisions for impairment losses.

INDEPENDENT AUDITOR'S REPORT (Continued)

KEY AUDIT MATTERS (Continued)

Impairment of loans and receivables	
Refer to note 19, 20(3) and 21 to the consolidated financial statements and the accounting policies in note 2(7).	
The Key Audit Matter	How the matter was addressed in our audit
<p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to a structured entity through issuing a wealth management product, or act as an investor to a structured entity through investing in an asset management plan, a trust plan or an asset-backed security.</p> <p>In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and the Group's exposure to and ability to influence its own returns from the entity. These factors are not purely quantitative and need to be considered collectively.</p>	<p>Our audit procedures to assess the consolidation of structured entities included the following:</p> <ul style="list-style-type: none"> • understanding and assessing design and implementation of key internal controls over the consolidation of structured entities; • selecting significant structured entities of each key product type and performing the following procedures for each entity selected: <ul style="list-style-type: none"> – inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;

INDEPENDENT AUDITOR'S REPORT (Continued)

KEY AUDIT MATTERS (Continued)

Consolidation of structured entities	
<i>Refer to note 44 to the consolidated financial statements and the accounting policies in note 2(4) and 2(24).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>As at December 31, 2017, the carrying amount of the Group's non-equity interests in structured entities sponsored by third party institutions which were not consolidated by the Group was RMB140,553 million whilst (December 31, 2016: RMB111,073 million), the amounts of assets held by structured entities sponsored by the Group which the Group did not consolidate but in which it held an non-equity interest was RMB37,501 million (December 31, 2016: RMB43,209 million).</p> <p>We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement to determine whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated financial statements and relevant regulatory capital requirements could be significant.</p>	<ul style="list-style-type: none"> – reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity; – reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity; – assessing management's judgement over whether the structured entity should be consolidated or not; • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

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

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

March 22, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Interest income		18,466,751	15,057,410
Interest expense		(10,360,709)	(6,757,417)
Net interest income	3	8,106,042	8,299,993
Fee and commission income		1,935,084	1,259,800
Fee and commission expense		(69,951)	(45,359)
Net fee and commission income	4	1,865,133	1,214,441
Net trading (losses)/gains	5	(474,716)	79,267
Net gains arising from investments	6	546,473	207,995
Other operating income	7	170,053	178,790
Operating income		10,212,985	9,980,486
Operating expenses	8	(2,753,108)	(2,434,524)
Impairment losses on assets	11	(1,956,950)	(2,346,372)
Operating profit		5,502,927	5,199,590
Share of profits of associates	22(2)	44,333	57,443
Profit before taxation		5,547,260	5,257,033
Income tax expense	12	(1,213,723)	(1,212,447)
Profit for the year		4,333,537	4,044,586

The notes on pages 195 to 353 form part of these financial statements.

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

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Net profit attributable to:			
Equity shareholders of the Bank		4,280,024	3,998,768
Non-controlling interests		53,513	45,818
		4,333,537	4,044,586
Profit for the year		4,333,537	4,044,586
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
– Available-for-sale financial assets:			
net movement in the fair value reserve	35(4)	(25,508)	(7,564)
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	35(5)	(355)	3,080
Other comprehensive income net of tax		(25,863)	(4,484)
Total comprehensive income		4,307,674	4,040,102
Total comprehensive income attributable to:			
Equity shareholders of the Bank		4,254,161	3,994,284
Non-controlling interests		53,513	45,818
		4,307,674	4,040,102
Basic and diluted earnings per share (<i>in RMB</i>)	13	0.80	0.75

The notes on pages 195 to 353 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	December 31, 2017	December 31, 2016
Assets			
Cash and deposits with central bank	14	45,635,132	42,586,362
Deposits with banks and other financial institutions	15	4,723,649	1,414,928
Placements with banks and other financial institutions	16	15,297,528	11,758,215
Financial assets at fair value through profit or loss	17	11,849,297	8,946,097
Financial assets held under resale agreements	18	4,407,476	5,119,568
Loans and advances to customers	19	124,455,942	107,633,407
Financial investments:			
Available-for-sale financial assets	20	35,086,298	6,301,789
Held-to-maturity investments	20	59,267,821	49,671,048
Loans and receivables	20	116,470,830	118,224,916
Finance lease receivables	21	10,490,994	5,721,061
Interest in associates	22	280,191	255,195
Property and equipment	23	1,813,326	1,698,990
Deferred tax assets	24	1,270,416	969,658
Other assets	25	4,779,987	5,846,738
Total assets		435,828,887	366,147,972
Liabilities			
Due to central bank	26	1,599,550	77,000
Deposits from banks and other financial institutions	27	28,934,366	25,808,253
Placements from banks and other financial institutions	28	22,348,389	19,105,611
Derivative financial liabilities	29	32,310	—
Financial assets sold under repurchase agreements	30	14,085,500	33,251,370
Deposits from customers	31	255,407,398	216,389,640
Tax payable		666,138	589,674
Debt securities issued	32	73,170,060	44,660,446
Other liabilities	33	6,145,811	4,404,603
Total liabilities		402,389,522	344,286,597

The notes on pages 195 to 353 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	December 31, 2017	December 31, 2016
Equity			
Share capital	34	5,321,932	5,321,932
Other equity instruments			
– Preference shares	37	7,825,508	–
Capital reserve	35	3,054,869	3,054,204
Surplus reserve	35	2,054,756	1,632,893
General reserve	35	5,520,320	4,527,789
Fair value reserve	35	(22,667)	2,841
Remeasurement of net defined benefit liability	35	(52,614)	(52,259)
Retained earnings	36	8,503,783	6,808,978
Total equity attributable to equity shareholders of the Bank		32,205,887	21,296,378
Non-controlling interests		1,233,478	564,997
Total equity		33,439,365	21,861,375
Total liabilities and equity		435,828,887	366,147,972

Approved and authorised for issue by the board of directors on March 22, 2018.

Wang Tianyu

Chairman of the Board of Directors

Executive Director

Shen Xueqing

President

Executive Director

Mao Yuezhen

Chief accountant

Li Guoquan

*General Manager of the Planning and
Finance Department*

(Company chop)

The notes on pages 195 to 353 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

Attributable to equity shareholders of the Bank												
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total	Non-controlling interests	Total equity
	Balance at January 1, 2017	5,321,932	-	3,054,204	1,632,893	4,527,789	2,841	(52,259)	6,808,978	21,296,378	564,997	21,861,375
	Profit for the year	-	-	-	-	-	-	-	4,280,024	4,280,024	53,513	4,333,537
	Other comprehensive income 35(4)(5)	-	-	-	-	-	(25,508)	(355)	-	(25,863)	-	(25,863)
	Total comprehensive income	-	-	-	-	-	(25,508)	(355)	4,280,024	4,254,161	53,513	4,307,674
	Share capital invested by shareholders											
	- Share capital invested by other equity instrument holders	-	7,825,508	-	-	-	-	-	-	7,825,508	-	7,825,508
	- Non-controlling interests from the acquisition of subsidiary	-	-	-	-	-	-	-	-	-	62,160	62,160
	- Non-controlling interests from the establishment of subsidiary	-	-	-	-	-	-	-	-	-	49,000	49,000
	- Share capital invested by non-controlling interests holders	-	-	-	-	-	-	-	-	-	503,750	503,750
	- Others	-	-	665	-	-	-	-	-	665	58	723
	Sub-total	-	7,825,508	665	-	-	-	-	-	7,826,173	614,968	8,441,141
	Appropriation of profit:											
	- Appropriation to surplus reserve 35(2)	-	-	-	421,863	-	-	-	(421,863)	-	-	-
	- Appropriation to general reserve 35(3)	-	-	-	-	992,531	-	-	992,531	-	-	-
	- Cash dividends 36	-	-	-	-	-	-	-	(1,170,825)	(1,170,825)	-	(1,170,825)
	Sub-total	-	-	-	421,863	992,531	-	-	2,585,219	(1,170,825)	-	(1,170,825)
	Balance at December 31, 2017	5,321,932	7,825,508	3,054,869	2,054,756	5,520,320	(22,667)	(52,614)	8,503,783	32,205,887	1,233,478	33,439,365

The notes on pages 195 to 353 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank						Non-controlling interests	Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability		
Balance at January 1, 2016		5,141,932	2,662,564	1,237,793	3,163,200	10,405	(55,339)	17,794,840	17,824,019
Profit for the year		-	-	-	-	-	-	3,998,768	4,044,586
Other comprehensive income	35(4)/(5)	-	-	-	-	(7,564)	3,080	(4,484)	(4,484)
Total comprehensive income		-	-	-	-	(7,564)	3,080	3,998,768	4,040,102
Changes in share capital									
- Issue of H-shares	34(35)	180,000	392,422	-	-	-	-	572,422	572,422
- Non-controlling interests from the establishment of subsidiary		-	-	-	-	-	-	490,000	490,000
- Others		-	(782)	-	-	-	-	(782)	(782)
Sub-total		180,000	391,640	-	-	-	-	571,640	1,061,640
Appropriation of profit:									
- Appropriation to surplus reserve	35(2)	-	-	395,100	-	-	-	(395,100)	-
- Appropriation to general reserve	35(3)	-	-	-	1,364,589	-	-	(1,364,589)	-
- Cash dividends	36	-	-	-	-	-	-	(1,064,386)	(1,064,386)
Sub-total		-	-	395,100	1,364,589	-	-	(2,824,075)	(1,064,386)
Balance at December 31, 2016		5,321,932	3,054,204	1,632,893	4,527,789	2,841	(52,259)	21,296,378	21,861,375

The notes on pages 195 to 353 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Cash flows from operating activities			
Profit before tax		5,547,260	5,257,033
<i>Adjustments for:</i>			
Impairment losses on assets		1,956,950	2,346,372
Depreciation and amortisation		261,677	212,689
Unwinding of discount		(55,551)	(49,375)
Unrealised foreign exchange losses/(gains)		285,992	(190,082)
Net gains on disposal of long-term assets		(6,489)	(24,456)
Net trading losses of financial assets at fair value through profit or loss		125,275	44,880
Net gains arising from investments		(546,473)	(207,995)
Share of profits of associates		(44,333)	(57,443)
Interest expense on debt securities issued		2,760,789	1,274,587
Interest income on financial investments		(9,295,463)	(7,397,630)
Other non-cash items		—	(5,527)
		989,634	1,203,053
<i>Changes in operating assets</i>			
Net increase in deposits with central bank		(4,939,350)	(3,710,588)
Net increase in deposits and placements with banks and other financial institutions		(1,826,199)	(4,233,434)
Net (increase)/decrease in financial assets at fair value through profit or loss		(2,996,165)	4,010,540
Net increase in loans and advances to customers		(17,953,685)	(17,821,042)
Net decrease in financial assets held under resale agreements		712,092	4,596,737
Net increase in finance lease receivables		(2,995,580)	(8,017,868)
Net increase in other operating assets		(358,042)	(29,008)
		(30,356,929)	(25,204,663)

The notes on pages 195 to 353 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
<i>Changes in operating liabilities</i>			
Net increase in amounts due to central bank		1,522,550	77,000
Net increase in deposits and placements from banks and other financial institutions		6,366,424	17,640,450
Net (decrease)/increase in financial assets sold under repurchase agreements		(19,165,870)	13,648,770
Net increase in deposits from customers		38,482,830	47,194,169
Income tax paid		(1,586,923)	(1,405,307)
Net increase in other operating liabilities		1,766,890	882,922
		27,385,901	78,038,004
Net cash flows (used in)/generated from operating activities		(1,981,394)	54,036,394
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		251,568,492	210,434,494
Proceeds from disposal of property and equipment and other assets		4,663	37,985
Payments on acquisition of investments		(287,487,324)	(284,556,319)
Payments on acquisition of associates		–	(14,400)
Prepayment on acquisition of a subsidiary	38(b)	–	(31,185)
Dividends and interest received		8,545,294	6,674,064
Net proceeds from acquisition of a subsidiary	38(b)	68,436	–
Payments on acquisition of property and equipment and other assets		(456,476)	(896,543)
Net cash flows used in investing activities		(27,756,915)	(68,351,904)

The notes on pages 195 to 353 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Cash flows from financing activities			
Proceeds received from issuance of H-shares		—	572,422
Proceeds received from issuance of preference shares		7,825,508	—
Capital contribution by non-controlling interests		552,750	490,000
Proceeds received from debt securities issued		103,216,337	60,927,564
Repayment of debt securities issued		(75,408,883)	(43,486,400)
Interest paid on debt securities issued		(1,938,082)	(1,162,156)
Dividends paid		(1,169,346)	(1,067,537)
Others		—	(385,727)
Net cash flows generated from financing activities		33,078,284	15,888,166
Net increase in cash and cash equivalents		3,339,975	1,572,656
Cash and cash equivalents as at January 1		16,122,799	14,514,260
Effect of foreign exchange rate changes on cash and cash equivalents		(208,720)	35,883
Cash and cash equivalents as at December 31	38(a)	19,254,054	16,122,799
Net cash flows (used in)/generated from operating activities include:			
Interest received		9,584,322	7,699,784
Interest paid		(6,381,350)	(4,862,362)

The notes on pages 195 to 353 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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

(2) Basis of preparation

The consolidated financial statements for the year ended December 31, 2017 comprise the Bank and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Change in accounting policies

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

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

(4) Subsidiaries and non-controlling interests

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Subsidiaries and non-controlling interests (Continued)

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

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

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

(5) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates ruling at the transaction dates.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Translation of foreign currencies (Continued)

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

(6) Cash and cash equivalents

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

(7) Financial instruments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

Financial assets and financial liabilities are categorised as follows:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

- *Held-to-maturity investments*

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

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

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

- *Loans and receivables*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

- *Available-for-sale financial assets*

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

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

- *Derivative financial instruments*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

- *Derivative financial instruments (Continued)*

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

- *Other financial liabilities*

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

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

(ii) **Impairment of financial assets**

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognised in profit or loss. Objective evidence of impairment in a financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

Objective evidence includes the following loss event:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of significant financial difficulties;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

- *Loans and receivables*

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

Individual assessment

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

- *Loans and receivables (Continued)*

Collective assessment

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

Homogeneous groups of loans and receivables not considered individually significant

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

- *Loans and receivables (Continued)*

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

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

The collective impairment loss is assessed after taking into account:

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

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

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

- *Loans and receivables (Continued)*

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

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

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

When the Group determines that a loan or receivable has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan or receivable is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered is recognised in profit or loss through impairment losses.

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, and the provision is calculated using the loan's original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

- *Held-to-maturity investments*

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

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

- *Available-for-sale financial assets*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

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

- *Available-for-sale financial assets (Continued)*

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

(iii) **Fair value measurement principles**

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

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

(iv) **Derecognition of financial assets and financial liabilities**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

(iv) *Derecognition of financial assets and financial liabilities* (Continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Financial instruments (Continued)

(v) *Offsetting*

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

(vi) *Preference share*

Preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy as accounting for the convertible bonds only with liability component.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) Financial assets held under resale and sold under repurchase agreements

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

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

Interest earned on resale agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(9) Associates

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Associates (Continued)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Property and equipment

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Property and equipment (Continued)

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

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

(11) Lease

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

(i) **Classification of assets leased to the Group**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Lease (Continued)

(ii) Operating lease charges

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

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

(iii) Finance leases

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

(12) Intangible assets

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

The respective amortisation periods for intangible assets are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(13) Repossessed assets

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

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

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

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

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

A Cash-Generating Unit (the “CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group’s operations and how management makes decisions about continuing or disposing of the Group’s assets.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

An asset's fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The value in use of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(15) Employee benefits

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Employee benefits (Continued)

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

Social pension schemes

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

Annuity plan

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

Housing fund and other social insurances

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Employee benefits (Continued)

(ii) *Supplementary retirement benefits*

Early retirement plan

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

Supplementary retirement plan

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Income tax

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Income tax (Continued)

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

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

(17) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position in accordance with Note 2(17)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Other provisions and contingent liabilities

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

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

(18) Fiduciary activities

The Group acts in fiduciary activities as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the “entrusted funds”) to the Group, and the Group grants loans to third parties (the “entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders. Income is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably and the following respective conditions are met:

(i) *Interest income*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Income recognition (Continued)

(ii) *Fee and commission income*

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

(iii) *Government grants*

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

(iv) *Other income*

Other income is recognised on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Expenses recognition

(i) *Interest expenses*

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

(ii) *Other expenses*

Other expenses are recognised on an accrual basis.

(21) Dividends

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

(22) Related parties

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(22) Related parties (Continued)

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

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

(23) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated as "other segment" if they share a majority of these criteria.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(24) Significant accounting estimates and judgements

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

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

The impairment loss for loans and advances to customers, and debt investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(24) Significant accounting estimates and judgements (Continued)

(ii) *Fair value of financial instruments*

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

(iii) *Classification of held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Group has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(iv) *Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(24) Significant accounting estimates and judgements (Continued)

(v) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(vi) Depreciation and amortisation

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in this year. The estimated useful lives are determined based on historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(vii) Determination of control over investees

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	2017	2016
Interest income arising from		
Deposits with central bank	495,022	417,000
Deposits and placements with banks and other financial institutions	460,061	299,960
Loans and advances to customers		
– Corporate loans and advances	5,006,845	4,560,841
– Personal loans and advances	1,681,426	1,398,325
– Discounted bills	79,700	216,540
Financial assets held under resale agreements	425,572	222,204
Financial investments	9,807,639	7,822,163
Finance lease receivables	510,486	120,377
Sub-total	18,466,751	15,057,410
Interest expense arising from		
Amounts due to central bank	(29,651)	(554)
Deposits and placements from banks and other financial institutions	(2,288,404)	(1,360,860)
Deposits from customers	(4,639,739)	(3,589,758)
Financial assets sold under repurchase agreements	(642,126)	(531,658)
Debt securities issued	(2,760,789)	(1,274,587)
Sub-total	(10,360,709)	(6,757,417)
Net interest income	8,106,042	8,299,993
Of which:		
Interest income arising from impaired financial assets identified	55,551	49,375

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME (Continued)

- (1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.
- (2) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended December 31, 2017 amounted to RMB17,955 million (2016: RMB14,633 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended December 31, 2017 amounted to RMB10,361 million (2016: RMB6,757 million).

4 NET FEE AND COMMISSION INCOME

	2017	2016
Fee and commission income		
Agency and custody services fees	1,282,361	698,590
Underwriting and advisory fees	409,320	374,214
Acceptance and guarantee services fees	156,455	116,631
Bank card services fees	76,942	49,457
Others	10,006	20,908
Sub-total	1,935,084	1,259,800
Fee and commission expense	(69,951)	(45,359)
Net fee and commission income	1,865,133	1,214,441

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

5 NET TRADING (LOSSES)/GAINS

	Note	2017	2016
Net losses from debt securities	(i)	(225,397)	(95,104)
Net foreign exchange (losses)/gains	(ii)	(217,009)	174,371
Net losses from derivative financial instruments		(32,310)	—
Total		(474,716)	79,267

(i) Net losses from debt securities include losses arising from the buying and selling of, and changes in the fair value of financial assets at fair value through profit or loss.

(ii) Net foreign exchange (losses)/gains mainly included gains from purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

6 NET GAINS ARISING FROM INVESTMENTS

	2017	2016
Net gains from financial investments	546,473	207,995
Total	546,473	207,995

7 OTHER OPERATING INCOME

	2017	2016
Rental income	14,910	12,067
Government grants	82,499	108,210
Net gains on disposal of property and equipment	6,489	24,456
Others	66,155	34,057
Total	170,053	178,790

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

8 OPERATING EXPENSES

	Note	2017	2016
Staff costs			
– Salaries, bonuses and allowance		931,365	800,532
– Social insurance and annuity		202,510	161,123
– Supplementary retirement benefits		5,811	7,315
– Staff welfare		167,610	144,687
– Housing allowance		60,143	47,085
– Others		40,333	33,119
Sub-total		1,407,772	1,193,861
Depreciation and amortisation		261,677	212,689
Rental and property management expenses		202,789	176,053
Office expenses		90,764	77,423
Tax and surcharges		79,186	212,439
Other general and administrative expenses	(1)	710,920	562,059
Total		2,753,108	2,434,524

(1) Auditor's remunerations were RMB3.60 million for the year ended December 31, 2017 (2016: RMB3.50 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

		Year ended December 31, 2017						
		<div> <div>Contribution</div> <div>by the</div> <div>employer</div> <div>to social</div> <div>insurance</div> <div>and welfare</div> </div>						Actual
				Discretionary	plans, housing	Total	Of which	amount of
Name	Note	Fees	Salaries	bonus	allowance, etc.	emoluments	payment	remuneration
						before tax	deferred	paid (pre-tax)
Executive directors								
Wang Tianyu		–	917	2,017	210	3,144	917	2,227
Shen Xueqing		–	871	1,917	203	2,991	871	2,120
Feng Tao		–	825	1,733	98	2,656	825	1,831
Non-executive directors								
Fan Yutao		–	–	–	–	–	–	–
Ma Jinwei		36	–	–	–	36	–	36
Zhang Jingguo		36	–	–	–	36	–	36
Liang Songwei		–	–	–	–	–	–	–
Ji Hongjun		36	–	–	–	36	–	36
Yu Zhanglin		36	–	–	–	36	–	36
Xu Jingnan	(2)	6	–	–	–	6	–	6
Independent non-executive directors								
Wang Shihao		180	–	–	–	180	–	180
Li Huaizhen		180	–	–	–	180	–	180
Xie Taifeng		180	–	–	–	180	–	180
Wu Ge		180	–	–	–	180	–	180
Chan Mei Bo, Mabel		180	–	–	–	180	–	180

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

		Year ended December 31, 2017						
		<div> <div>Contribution</div> <div>by the</div> <div>employer</div> <div>to social</div> <div>insurance</div> <div>and welfare</div> <div>plans, housing</div> <div>Discretionary bonus</div> </div>						Actual amount of remuneration paid (pre-tax)
Name	Note	Fees	Salaries	bonus	allowance, etc.	Total emoluments before tax	Of which payment deferred	
Supervisors								
Zhao Lijuan		–	825	1,816	190	2,831	825	2,006
Tang Yunwei		150	–	–	–	150	–	150
Meng Jun		36	–	–	–	36	–	36
Duan Ping		–	194	341	101	636	–	636
Zhang Chungu		–	117	270	139	526	–	526
Song Ke	(2)	92	–	–	–	92	–	92
Zhu Zhihui		36	–	–	–	36	–	36
Cui Huarui		–	163	852	154	1,169	–	1,169
Former Supervisors								
Liu Yuhui	(2)	75	–	–	–	75	–	75
Xu Changsheng	(2)	138	–	–	–	138	–	138
Total		1,577	3,912	8,946	1,095	15,530	3,438	12,092

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2016								
Name	Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Executive directors								
Wang Tianyu		–	917	1,834	235	2,986	917	2,069
Shen Xueqing		–	871	1,742	211	2,824	871	1,953
Feng Tao	(1)	–	481	963	37	1,481	481	1,000
Non-executive directors								
Fan Yutao		–	–	–	–	–	–	–
Ma Jinwei		36	–	–	–	36	–	36
Zhang Jingguo		36	–	–	–	36	–	36
Liang Songwei		–	–	–	–	–	–	–
Ji Hongjun		36	–	–	–	36	–	36
Yu Zhanglin	(1)	–	–	–	–	–	–	–
Independent non-executive directors								
Wang Shihao		180	–	–	–	180	–	180
Li Huaizhen		180	–	–	–	180	–	180
Xie Taifeng		180	–	–	–	180	–	180
Wu Ge		180	–	–	–	180	–	180
Chan Mei Bo, Mabel		180	–	–	–	180	–	180

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2016								
Name	Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Supervisors								
Zhao Lijuan	(1)	–	806	1,605	208	2,619	802	1,817
Tang Yunwei		150	–	–	–	150	–	150
Liu Yuhui		150	–	–	–	150	–	150
Meng Jun		36	–	–	–	36	–	36
Duan Ping		–	174	397	104	675	–	675
Zhang Chungge		–	102	539	102	743	–	743
Xu Changsheng	(1)	80	–	–	–	80	–	80
Zhu Zhihui		36	–	–	–	36	–	36
Cui Huarui		–	163	942	180	1,285	–	1,285
Former Executive director								
Zhang Rongshun	(1)	–	825	1,651	218	2,694	825	1,869
Former Non-executive directors								
Ma Lei	(1)	–	–	–	–	–	–	–
Xu Jianxin	(1)	11	–	–	–	11	–	11
Former Supervisors								
Fan Dalu	(1)	196	–	–	53	249	–	249
Zhang Shengping	(1)	70	–	–	–	70	–	70
Total		1,737	4,339	9,673	1,348	17,097	3,896	13,201

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

- (1) At the Bank's 2015 General Meeting held on June 17, 2016, Mr. Zhang Rongshun resigned as executive director of the Bank, and Mr. Feng Tao was elected as executive director of the Bank; Mr. Ma Lei and Mr. Xu Jianxin resigned as non-executive directors of the Bank, and Mr. Yu Zhanglin was elected as non-executive director of the Bank; Mr. Fan Dalu and Mr. Zhang Shengping resigned as supervisor of the Bank, and Ms. Zhao Lijuan and Mr. Xu Changsheng were elected as supervisors of the Bank.
- (2) At the Bank's 2016 General Meeting held on May 19, 2017, Ms. Xu Jingnan was elected as non-executive director of the Bank; Mr Song Ke was elected as supervisor of the Bank and Mr Xu Changsheng and Mr Liu Yuhui resigned as supervisors of the Bank.

During the year, there was no arrangement under which a director or a supervisor waived or agreed to waive and remuneration (2016: Nil).

During the year, no emolument was paid by the Group to any of the directors or supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office (2016: Nil).

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with highest emoluments include 2 directors and 1 supervisor (2016: 2 directors and 1 supervisor) of the Group, whose emoluments are disclosed in Note 9. The emoluments for the other highest paid individual is as follows:

	2017	2016
Salaries and other emoluments	1,605	1,604
Discretionary bonuses	3,531	3,210
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	385	413
Total	5,521	5,227

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

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

	2017	2016
RMB2,500,001–3,000,000	2	2
Total	2	2

11 IMPAIRMENT LOSSES ON ASSETS

	2017	2016
Loans and advances to customers	1,744,274	1,972,362
Financial investments classified as loans and receivables	120,000	285,000
Finance lease receivables	85,028	57,789
Others	7,648	31,221
Total	1,956,950	2,346,372

12 INCOME TAX EXPENSE

(1) Income tax for the year:

	Note	2017	2016
Current tax		1,495,786	1,587,104
Deferred tax	24	(292,139)	(379,020)
Adjustment for prior years		10,076	4,363
Total		1,213,723	1,212,447

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE (Continued)

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

	Note	2017	2016
Profit before tax		5,547,260	5,257,033
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		1,386,815	1,314,258
Non-deductible expenses		6,710	22,487
Non-taxable income	(i)	(189,878)	(128,661)
Sub-total		1,203,647	1,208,084
Adjustment for prior years		10,076	4,363
Income tax		1,213,723	1,212,447

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

	Note	2017	2016
Net profit attributable to equity shareholders of the Bank		4,280,024	3,998,768
Weighted average number of ordinary shares (in thousand shares)	(1)	5,321,932	5,306,932
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.80	0.75

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

(1) Weighted average number of ordinary shares (in thousand shares)

	2017	2016
Number of ordinary shares as at January 1	5,321,932	5,141,932
Increase in weighted average number of ordinary shares	—	165,000
Weighted average number of ordinary shares	5,321,932	5,306,932

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	December 31, 2017	December 31, 2016
Cash on hand		768,348	956,980
Deposits with central bank			
– Statutory deposit reserves	(1)	32,333,148	27,768,576
– Surplus deposit reserves	(2)	12,122,850	13,824,798
– Fiscal deposits		410,786	36,008
Sub-total		44,866,784	41,629,382
Total		45,635,132	42,586,362

- (1) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:

	December 31, 2017	December 31, 2016
Reserve ratio for RMB deposits	13.5%	13.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Group's daily business.

The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

- (2) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	December 31, 2017	December 31, 2016
Deposits in mainland China		
– Banks	1,253,477	347,715
– Other financial institutions	3,955	873,854
Sub-total	1,257,432	1,221,569
Deposits outside mainland China		
– Banks	3,466,217	193,359
Total	4,723,649	1,414,928

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2017	December 31, 2016
Placements in mainland China		
– Banks	15,290,028	11,758,215
Placements outside mainland China		
– Banks	7,500	–
Total	15,297,528	11,758,215

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	December 31, 2017	December 31, 2016
Held for trading purpose			
Debt securities	(1)	2,151,565	8,551,297
Investment funds		3,755,820	394,800
Designated at fair value through profit or loss			
Investment management products		5,941,912	–
Total		11,849,297	8,946,097
(1) Debt securities held for trading purpose			
Mainland China			
– Government		734,722	519,614
– Policy banks		1,062,048	4,218,398
– Banks and other financial institutions		29,439	3,809,461
– Corporate		325,356	3,824
Sub-total		2,151,565	8,551,297
Debt securities analysed into			
– Listed outside Hong Kong		1,060,078	519,614
– Unlisted		1,091,487	8,031,683
Sub-total	(i)	2,151,565	8,551,297

- (i) As at the end of the reporting period, certain financial assets at fair value through profit or loss was pledged for repurchase agreements (Note 43(6)). No other investments were subject to material restrictions on the realization.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	December 31, 2017	December 31, 2016
In mainland China		
– Banks	1,355,000	3,678,558
– Other financial institutions	3,052,476	1,441,010
Total	4,407,476	5,119,568

(2) Analysed by type of collateral

	December 31, 2017	December 31, 2016
Debt securities	4,407,476	3,812,610
Bills	–	1,306,958
Total	4,407,476	5,119,568

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	December 31, 2017	December 31, 2016
Corporate loans and advances	92,248,887	81,254,576
Personal loans and advances		
– Personal business loans	12,851,941	11,750,766
– Residential mortgage	10,240,718	6,861,790
– Personal consumption loans	8,827,773	4,841,835
– Auto loans	1,065,127	490,848
– Credit card	1,127,711	870,069
– Others	3	8
Sub-total	34,113,273	24,815,316
Discounted bills	2,094,318	5,022,347
Gross loans and advances to customers	128,456,478	111,092,239
Less: Provision for impairment losses		
– Individually assessed	(640,455)	(536,463)
– Collectively assessed	(3,360,081)	(2,922,369)
Total provision for impairment losses	(4,000,536)	(3,458,832)
Net loans and advances to customers	124,455,942	107,633,407

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(2) Analysed by economic sector

	December 31, 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail	32,436,168	25.25%	18,549,333
Manufacturing	13,678,950	10.65%	3,367,390
Construction	11,951,304	9.30%	6,662,124
Real estate	9,991,443	7.78%	8,153,900
Leasing and commercial services	7,641,811	5.96%	4,526,957
Water, environment and public facility management	3,676,164	2.86%	2,951,976
Transportation, storage and postal services	2,385,529	1.86%	432,572
Agriculture, forestry, animal husbandry and fishery	2,292,170	1.78%	1,075,030
Production and supply of electric and heating power, gas and water	1,764,514	1.37%	71,930
Accommodation and catering	1,075,419	0.84%	806,320
Culture, sports and entertainment	382,080	0.30%	299,060
Public administration, public security and social organisations	327,500	0.25%	327,500
Mining	223,274	0.17%	97,300
Others	4,422,561	3.44%	635,060
Sub-total of corporate loans and advances	92,248,887	71.81%	47,956,452
Personal loans and advances	34,113,273	26.56%	24,015,679
Discounted bills	2,094,318	1.63%	1,890,255
Gross loans and advances to customers	128,456,478	100.00%	73,862,386

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(2) Analysed by economic sector (Continued)

	December 31, 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail	29,897,940	26.91%	15,395,515
Manufacturing	13,054,621	11.75%	4,240,768
Construction	10,687,023	9.62%	6,463,753
Real estate	8,737,171	7.87%	7,389,971
Leasing and commercial services	4,092,399	3.68%	1,277,101
Agriculture, forestry, animal husbandry and fishery	3,619,829	3.26%	2,166,841
Water, environment and public facility management	2,087,799	1.88%	1,820,585
Mining	1,508,926	1.36%	456,130
Production and supply of electric and heating power, gas and water	1,390,580	1.25%	261,680
Transportation, storage and postal services	1,360,934	1.23%	402,372
Accommodation and catering	1,081,650	0.97%	784,357
Public administration, public security and social organisations	914,058	0.82%	—
Culture, sports and entertainment	210,300	0.19%	40,750
Others	2,611,346	2.35%	675,321
Sub-total of corporate loans and advances	81,254,576	73.14%	41,375,144
Personal loans and advances	24,815,316	22.34%	16,865,959
Discounted bills	5,022,347	4.52%	2,401,298
Gross loans and advances to customers	111,092,239	100.00%	60,642,401

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(2) Analysed by economic sector (Continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

	December 31, 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Wholesale and retail	521,278	197,366	1,060,600	540,955	487,134
Manufacturing	868,910	362,500	506,624	194,928	141,167

	December 31, 2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Wholesale and retail	373,063	152,737	1,022,650	843,830	439,737
Manufacturing	688,535	322,270	500,415	317,696	101,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(3) Analysed by type of collateral

	December 31, 2017	December 31, 2016
Unsecured loans	15,453,740	7,659,802
Guaranteed loans	39,140,352	42,790,036
Loans secured by tangible assets other than monetary assets	43,574,227	33,254,544
Loans secured by intangible assets or monetary assets	30,288,159	27,387,857
Gross loans and advances to customers	128,456,478	111,092,239
Less: Provision for impairment losses		
– Individually assessed	(640,455)	(536,463)
– Collectively assessed	(3,360,081)	(2,922,369)
Total provision for impairment losses	(4,000,536)	(3,458,832)
Net loans and advances to customers	124,455,942	107,633,407

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(4) Overdue loans analysed by overdue period

	December 31, 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	17,010	9,981	1,951	–	28,942
Guaranteed loans	2,433,907	1,828,957	823,073	–	5,085,937
Loans secured by tangible assets other than monetary assets	1,062,519	330,350	214,624	55,955	1,663,448
Loans secured by intangible assets or monetary assets	68,335	7,084	20,000	3,500	98,919
Total	3,581,771	2,176,372	1,059,648	59,455	6,877,246
As a percentage of gross loans and advances to customers	2.79%	1.69%	0.82%	0.05%	5.35%

	December 31, 2016				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	4,884	2,254	590	–	7,728
Guaranteed loans	2,353,023	1,069,032	246,806	–	3,668,861
Loans secured by tangible assets other than monetary assets	642,044	373,859	97,625	530	1,114,058
Loans secured by intangible assets or monetary assets	217,572	90,990	3,500	–	312,062
Total	3,217,523	1,536,135	348,521	530	5,102,709
As a percentage of gross loans and advances to customers	2.90%	1.38%	0.31%	0.00%	4.59%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(5) Loans and advances and provision for impairment losses

	December 31, 2017				
	Loans and advances for which loans and provision are collectively assessed	Impaired loans and advances		Total	Gross impaired advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	126,530,792	308,013	1,617,673	128,456,478	1.50%
Less: Provision for impairment losses	(3,219,578)	(140,503)	(640,455)	(4,000,536)	
Net loans and advances to customers	123,311,214	167,510	977,218	124,455,942	

	December 31, 2016				
	Loans and advances for which loans and provision are collectively assessed	Impaired loans and advances			Gross impaired advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed	Total	
Gross loans and advances to customers	109,635,175	240,777	1,216,287	111,092,239	1.31%
Less: Provision for impairment losses	(2,821,668)	(100,701)	(536,463)	(3,458,832)	
Net loans and advances to customers	106,813,507	140,076	679,824	107,633,407	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(6) Movements of provision for impairment losses

	2017			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	2,821,668	100,701	536,463	3,458,832
Charge for the year	383,866	533,915	909,967	1,827,748
Release for the year	—	—	(83,474)	(83,474)
Recoveries	—	21,320	77,160	98,480
Write-offs	—	(522,220)	(750,538)	(1,272,758)
Unwinding of discount	—	—	(55,551)	(55,551)
Acquisition of subsidiary	14,044	6,787	6,428	27,259
As at December 31	3,219,578	140,503	640,455	4,000,536
	2016			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	2,282,729	20,408	386,153	2,689,290
Charge for the year	699,255	253,857	1,113,765	2,066,877
Release for the year	—	—	(94,515)	(94,515)
Recoveries	—	2,490	3,000	5,490
Disposals	—	—	(265,471)	(265,471)
Write-offs	(160,316)	(176,054)	(557,094)	(893,464)
Unwinding of discount	—	—	(49,375)	(49,375)
As at December 31	2,821,668	100,701	536,463	3,458,832

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS

	Note	December 31, 2017	December 31, 2016
Available-for-sale financial assets	(1)	35,086,298	6,301,789
Held-to-maturity investments	(2)	59,267,821	49,671,048
Loans and receivables	(3)	116,470,830	118,224,916
Total		210,824,949	174,197,753

(1) Available-for-sale financial assets

	Note	December 31, 2017	December 31, 2016
Debt securities at fair value			
– Policy banks		–	1,202,185
– Banks and other financial institutions		2,582,533	–
– Corporate		217,298	119,091
Sub-total	(i)	2,799,831	1,321,276
Other debt investment			
– Unlisted	(ii)	32,278,067	4,972,113
Equity investment at cost			
– Unlisted	(iii)	8,400	8,400
Total		35,086,298	6,301,789

(i) All of debt securities are unlisted.

(ii) Other unlisted debt investment mainly includes wealth management products issued by other banks, investment management products under trust scheme, investment management products issued by securities companies, etc..

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS (Continued)

(1) Available-for-sale financial assets (Continued)

- (iii) Available-for-sale unlisted equity investments which do not have any quoted price in an active market for an identical instrument and whose fair values cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment.

(2) Held-to-maturity investments

	Note	December 31, 2017	December 31, 2016
Debt securities			
– Government		19,442,671	14,263,579
– Policy banks		29,191,123	27,448,753
– Banks and other financial institutions		3,671,284	3,107,483
– Corporate		6,962,743	4,851,233
Total		59,267,821	49,671,048
Debt securities analysed into:			
– Listed outside Hong Kong		22,274,859	16,051,048
– Unlisted		36,992,962	33,620,000
Total	(i)	59,267,821	49,671,048

- (i) As at the end of reporting period, certain held-to-maturity investments was pledged for repurchase agreements (Note 43(6)). No other investments were subject to material restrictions on the realization.
- (ii) For the year ended December 31, 2017, the carrying amount of the held-to-maturity securities that were disposed off amounted of RMB703 million, which accounted for 1.41% of the total amount of the Group's held-to-maturity investments before the disposal. For the year ended December 31, 2016, the Group has not disposed of any debt securities which are classified as held-to-maturity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS (Continued)

(3) Loans and receivables

	December 31, 2017	December 31, 2016
Investment management products under trust scheme	68,114,620	52,794,468
Investment management products managed by securities companies	31,714,643	45,079,359
Factoring and financial lease beneficial interest plan	14,484,280	13,150,125
Others	2,797,300	7,720,977
Sub-total	117,110,843	118,744,929
Less: Provision for impairment losses		
– Individually assessed	(81,561)	(25,428)
– Collectively assessed	(558,452)	(494,585)
Total provision for impairment losses	(640,013)	(520,013)
Total	116,470,830	118,224,916

(i) Movements of provision for impairment losses

	December 31, 2017	December 31, 2016
As at January 1	520,013	235,013
Charge for the year	120,000	285,000
As at December 31	640,013	520,013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

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21 FINANCE LEASE RECEIVABLES

	December 31, 2017	December 31, 2016
Minimum finance lease receivables	11,877,206	6,645,653
Less: Unearned finance lease income	(1,226,451)	(866,803)
Present value of finance lease receivables	10,650,755	5,778,850
Less: Provision for impairment losses – Collectively assessed	(159,761)	(57,789)
Total	10,490,994	5,721,061

(1) Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	December 31, 2017			December 31, 2016		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Less than 1 year	3,573,591	(532,263)	3,041,328	1,432,250	(312,201)	1,120,049
1 year to 2 years	3,184,374	(366,442)	2,817,932	1,669,236	(242,447)	1,426,789
2 years to 3 years	2,807,206	(218,393)	2,588,813	1,247,086	(163,861)	1,083,225
3 years to 5 years	2,280,440	(102,727)	2,177,713	2,220,050	(136,482)	2,083,568
More than 5 years	31,595	(6,626)	24,969	77,031	(11,812)	65,219
	11,877,206	(1,226,451)	10,650,755	6,645,653	(866,803)	5,778,850

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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21 FINANCE LEASE RECEIVABLES (Continued)

(2) Movements of provision for impairment losses:

	December 31, 2017	December 31, 2016
As at January 1	57,789	–
Charge for the year	85,028	57,789
Transfer from other assets	16,944	–
As at December 31	159,761	57,789

22 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES

(1) Investment in subsidiaries

Particulars of the Group's subsidiaries as at the end of the reporting period is as follows:

Name	Percentage of equity interest		Voting rights 2017 %	Paid-in capital 2017	Amount invested by the Bank	Place of incorporation registration	Principal activities
	2017 %	2016 %					
Fugou Zhengyin County Bank Co., Ltd.	50.20	50.20	50.20	60,000.00	30,120.00	China	Banking
Xinmi Zhengyin County Bank Co., Ltd. ("Xinmi Zhengyin")	51.20	20.00	51.20	125,000.00	74,033.00	China	Banking
Henan Jiuding Financial Leasing Co., Ltd.	51.00	51.00	51.00	2,000,000.00	1,020,000.00	China	Leasing
Xunxian Zhengyin Country Bank Co., Ltd	51.00	–	51.00	50,000.00	25,500.00	China	Banking
Queshan Zhengyin Country Bank Co., Ltd	51.00	–	51.00	50,000.00	25,500.00	China	Banking

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

22 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES (Continued)

- (a) Fugou Zhengyin County Bank Co., Ltd. was incorporated on December 3, 2015. Henan Jiuding Financial Leasing Co., Ltd. was incorporated on March 23, 2016. Xunxian Zhengyin County Bank Co., Ltd. was incorporated on November 6, 2017. Queshan Zhengyin County Bank Co., Ltd. was incorporated on 14 November 2017. These subsidiaries have no material non-controlling interest to the Group.
- (b) The Bank acquired 31.50% of Xinmi Zhengyin's equity interest during the year with a cash consideration of RMB34,650 thousands, of which RMB31,185 thousands were paid in 2016. After the transaction, the Bank held 51.50% of Xinmi Zhengyin's equity interest, and Xinmi Zhengyin became a subsidiary of the Bank since January 1, 2017. In December 2017, the Bank and other shareholders invested RMB27,500,000 into Xinmi Zhengyin, and the paid-in capital of Xinmi Zhengyin increased to RMB125,000,000. After the capital injection, the Bank held 51.20% Xinmi Zhengyin's equity interest. The subsidiary has no material non-controlling interest to the Group.

(2) Interest in associates

	December 31, 2017	December 31, 2016
Interest in associates	280,191	255,195
Total	280,191	255,195

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

22 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES (Continued)

(2) Interest in associates (Continued)

The following list contains the Group's associates, all of which are individually immaterial to the Group and are unlisted corporate entities whose quoted market price are not available:

Name	Note	Percentages of equity/ voting rights %		Place of incorporation/ registration	Business sector
		December 31, 2017	December 31, 2016		
Zhongmu Zhengyin County Bank Co., Ltd.	(a)	18.53	18.53	Henan, China	Banking
Yanling Zhengyin County Bank Co., Ltd.		30.00	30.00	Henan, China	Banking
Xinzheng Zhengyin Country Bank Co., Ltd.		25.00	20.00	Henan, China	Banking

- (a) The Group has representation on the board of directors of Zhongmu Zhengyin County Bank Co., Ltd., and has significant influence over it.

The following table illustrates the aggregate information of the Group's associates that are not individually material:

	December 31, 2017	December 31, 2016
Aggregate carrying amount of the individually immaterial associates in the consolidated statements of financial position of the Group	280,191	255,195
Aggregate amounts of the Group's share of results of the associates		
– Profit from continuing operations	44,333	57,443
– Other comprehensive income	–	–
– Total comprehensive income	44,333	57,443

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

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23 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2016	1,306,877	401,888	15,275	184,192	106,861	2,015,093
Additions	101,472	71,077	1,464	40,741	29,213	243,967
Disposals	(749)	(7,231)	(2,356)	(24,653)	–	(34,989)
As at December 31, 2016	1,407,600	465,734	14,383	200,280	136,074	2,224,071
Additions	167,425	84,344	920	39,462	10,950	303,101
Disposals	–	(6,434)	(2,193)	(5,010)	–	(13,637)
As at December 31, 2017	1,575,025	543,644	13,110	234,732	147,024	2,513,535
Accumulated depreciation						
As at January 1, 2016	(127,180)	(181,591)	(12,409)	(85,348)	–	(406,528)
Additions	(38,876)	(65,555)	(1,203)	(42,090)	–	(147,724)
Disposals	711	6,832	2,239	23,393	–	33,175
As at December 31, 2016	(165,345)	(240,314)	(11,373)	(104,045)	–	(521,077)
Additions	(44,065)	(92,186)	(1,674)	(50,026)	–	(187,951)
Disposals	–	6,097	2,084	4,642	–	12,823
As at December 31, 2017	(209,410)	(326,403)	(10,963)	(149,429)	–	(696,205)
Impairment						
As at January 1, 2016	(1,355)	(1,893)	–	(756)	–	(4,004)
Additions/Disposals	–	–	–	–	–	–
As at December 31, 2016	(1,355)	(1,893)	–	(756)	–	(4,004)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT (Continued)

	Premises	Electronic equipment	Vehicles	Office equipment and others	Construction in progress	Total
Additions/Disposals	–	–	–	–	–	–
As at December 31, 2017	(1,355)	(1,893)	–	(756)	–	(4,004)
Net book value						
As at December 31, 2016	1,240,900	223,527	3,010	95,479	136,074	1,698,990
As at December 31, 2017	1,364,260	215,348	2,147	84,547	147,024	1,813,326

The carrying amount of premises without title deeds as at December 31, 2017 was RMB127 million (December 31, 2016: RMB308 million). The Group is still in the progress of applying for the outstanding title deeds for the above premises. The Group expected that there would be no significant cost in obtaining the title deeds.

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	December 31, 2017	December 31, 2016
Held in mainland China		
– Medium term leases (10–50 years)	1,359,249	1,235,010
– Short term leases (less than 10 years)	5,011	5,890
Total	1,364,260	1,240,900

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

24 DEFERRED TAX ASSETS

(1) Analysed by nature

	December 31, 2017		December 31, 2016	
	Deductible temporary differences	Deferred income tax assets	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Allowance for impairment losses	4,662,721	1,165,680	3,602,040	900,510
Accrued staff costs	201,222	50,306	215,640	53,910
Fair value changes in financial instruments	157,704	39,426	(1,580)	(395)
Provisions	59,417	14,854	57,040	14,260
Cumulative tax losses of the subsidiaries	599	150	5,493	1,373
Net deferred income tax assets	5,081,663	1,270,416	3,878,633	969,658

(2) Analysed by movement

	Recognised in other comprehensive income			
	At January 1, 2017	Recognised in profit or loss	At December 31, 2017	
Allowance for impairment losses	900,510	265,170	–	1,165,680
Accrued staff costs	53,910	(3,721)	117	50,306
Fair value changes in financial instruments	(395)	31,319	8,502	39,426
Provisions	14,260	594	–	14,854
Cumulative tax losses of the subsidiary	1,373	(1,223)	–	150
Net deferred income tax assets	969,658	292,139	8,619	1,270,416

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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24 DEFERRED TAX ASSETS (Continued)

(2) Analysed by movement (Continued)

	At January 1, 2016	Recognised in profit or loss	Recognised in other comprehensive income	At December 31, 2016
Allowance for impairment losses	533,253	367,257	–	900,510
Accrued staff costs	58,822	(3,885)	(1,027)	53,910
Fair value changes in financial instruments	(14,137)	11,220	2,522	(395)
Provisions	10,735	3,525	–	14,260
Cumulative tax losses of the subsidiary	470	903	–	1,373
Net deferred income tax assets	589,143	379,020	1,495	969,658

25 OTHER ASSETS

	Note	December 31, 2017	December 31, 2016
Interest receivables	(1)	2,539,516	1,959,892
Prepayments		1,269,447	3,451,419
Intangible assets	(2)	537,171	147,050
Leasehold improvements		107,913	131,789
Other receivables		353,718	201,315
Sub-total		4,807,765	5,891,465
Less: allowance for impairment losses		(27,778)	(44,727)
Total		4,779,987	5,846,738

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS (Continued)

(1) Interest receivables

	December 31, 2017	December 31, 2016
Interest receivables arising from:		
– Investments	1,893,572	1,536,913
– Loans and advances to customers	338,886	238,092
– Others	307,058	184,887
Sub-total	2,539,516	1,959,892
Less: allowance for impairment losses	(19,397)	(19,397)
Total	2,520,119	1,940,495

(2) Intangible assets

	2017	2016
Cost		
As at January 1	229,521	165,494
Additions	420,819	64,027
Disposals	–	–
As at December 31	650,340	229,521
Accumulated amortisation		
As at January 1	(82,471)	(57,658)
Additions	(30,698)	(24,813)
Disposals	–	–
As at December 31	(113,169)	(82,471)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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25 OTHER ASSETS (Continued)

(2) Intangible assets (Continued)

	2017	2016
Impairment		
As at January 1	(145)	(145)
Additions/Disposals	–	–
As at December 31	(145)	(145)
Net book value		
As at January 1	146,905	107,691
As at December 31	537,026	146,905

26 DUE TO CENTRAL BANK

	December 31, 2017	December 31, 2016
Due to central bank	1,599,550	77,000
Total	1,599,550	77,000

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2017	December 31, 2016
In mainland China		
– Banks	28,300,298	24,601,073
– Other financial institutions	634,068	1,207,180
Total	28,934,366	25,808,253

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

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28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2017	December 31, 2016
In mainland China		
– Banks	22,348,389	18,505,611
– Non-bank financial institutions	–	600,000
Total	22,348,389	19,105,611

29 DERIVATIVE FINANCIAL LIABILITIES

The Group enters into derivative contracts mainly including currency swaps and options.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

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

The notional amount and fair value of unexpired derivative financial instruments held by the Group are set out in the following tables:

	December 31, 2017	
	Notional amount	Fair Value
In mainland China		
– Currency swap contracts	653,420	11,296
– Currency option contracts	3,201,758	21,014
Total	3,855,178	32,310

The Group had no derivative financial liabilities as at December 31, 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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30 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	December 31, 2017	December 31, 2016
In mainland China		
– PBOC	8,480,000	27,000,000
– Banks	5,605,500	5,887,510
– Other financial institutions	–	363,860
Total	14,085,500	33,251,370

(2) Analysed by type of collateral

	December 31, 2017	December 31, 2016
Debt securities	14,085,500	33,251,370
Total	14,085,500	33,251,370

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

31 DEPOSITS FROM CUSTOMERS

	December 31, 2017	December 31, 2016
Demand deposits		
– Corporate deposits	88,514,651	77,197,449
– Personal deposits	19,805,658	16,177,507
Sub-total	108,320,309	93,374,956
Time deposits		
– Corporate deposits	79,850,838	54,782,696
– Personal deposits	47,757,459	44,647,136
Sub-total	127,608,297	99,429,832
Pledged deposits		
– Acceptances	16,095,350	19,581,940
– Letters of guarantees	1,365,111	1,871,430
– Letters of credit	674,149	983,350
– Others	1,024,677	817,970
Sub-total	19,159,287	23,254,690
Others	319,505	330,162
Total	255,407,398	216,389,640

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

32 DEBT SECURITIES ISSUED

	Note	December 31, 2017	December 31, 2016
Financial bonds	(1)	5,596,521	2,600,000
Tier-two capital bonds	(2)	6,997,457	4,997,944
Interbank deposits		60,576,082	37,062,502
Total		73,170,060	44,660,446

(1) Detailed information of fixed rate financial bonds of Bank of Zhengzhou is as follows:

- a. Fixed rate financial bonds of RMB2.6 billion with a term of five years was issued in May 2013. The coupon rate is 4.80% per annum.
- b. Fixed rate green financial bonds of RMB3.0 billion with a term of three years was issued in September 2017. The coupon rate is 4.70% per annum.

(2) Tier-two capital bonds

- a. Fixed rate tier-two capital bonds of RMB2.0 billion with a term of ten years were issued in December 2014. The coupon rate is 5.73% per annum.
- b. Fixed rate tier-two capital bonds of RMB3.0 billion with a term of ten years were issued in December 2016. The coupon rate is 4.10% per annum.
- c. Fixed rate tier-two capital bonds of RMB2.0 billion with a term of ten years were issued in March 2017. The coupon rate is 4.80% per annum.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

33 OTHER LIABILITIES

	Note	December 31, 2017	December 31, 2016
Interest payable	(1)	4,434,703	3,095,586
Accrued staff costs	(2)	363,897	367,387
Finance lease payable		413,679	209,700
Dormant accounts		80,776	80,985
Payment and collection clearance accounts		52,357	146,229
Dividend payable		24,327	23,373
Provisions		59,417	57,040
Others		716,655	424,303
Total		6,145,811	4,404,603

(1) Interest payable

	December 31, 2017	December 31, 2016
Interest payable arising from:		
– Deposits from customers	3,401,054	2,587,932
– Deposits and placements from banks and other financial institutions	798,630	398,501
– Debt securities issued	202,918	82,372
– Financial assets sold under repurchase agreements	30,648	26,740
– Due to central bank	1,453	41
Total	4,434,703	3,095,586

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

33 OTHER LIABILITIES (Continued)

(2) Accrued staff costs

	Note	December 31, 2017	December 31, 2016
Salary, bonuses and allowances payable		159,969	132,572
Staff welfare		—	4,529
Social insurance and annuity payable		746	2,613
Housing allowances payable		61	131
Labor union fee, staff and workers' education fee		1,899	11,902
Supplementary retirement benefits payable	(a)	201,222	215,640
Total		363,897	367,387

(a) Supplementary retirement benefits ("SRB")

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement benefits payments is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Group's eligible employees.

The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period. The Group's obligations in respect of the SRB were accessed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Mercer Consulting (China) Ltd..

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

33 OTHER LIABILITIES (Continued)

(2) Accrued staff costs (Continued)

(a) Supplementary retirement benefits ("SRB") (Continued)

(i) The balances of supplementary retirement benefits of the Group are as follows:

	December 31, 2017	December 31, 2016
Present value of early retirement plan	29,527	41,664
Present value of supplementary retirement plan	171,695	173,976
Total	201,222	215,640

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	2017	2016
As at January 1	215,640	235,287
Benefits paid during the year	(20,701)	(22,855)
Defined benefit cost recognised in profit or loss	5,811	7,315
Defined benefit cost recognised in other comprehensive income	472	(4,107)
As at December 31	201,222	215,640

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

33 OTHER LIABILITIES (Continued)

(2) Accrued staff costs (Continued)

(a) Supplementary retirement benefits ("SRB") (Continued)

(iii) Key actuarial assumptions of the Group are as follows:

	December 31, 2017	December 31, 2016
Early retirement plan		
Discount rate	3.80%	2.80%
Retired age		
– Male	60	60
– Female	55	55
Annual increase rate of internal salary	8.00%	8.00%
	December 31, 2017	December 31, 2016
Supplementary retirement plan		
Discount rate	4.20%	3.50%
Retired age		
– Male	60	60
– Female	55	55
	December 31, 2017	December 31, 2016
Death rate for age 20 – 105		
Male	0.0248% – 100%	0.054% – 100%
Female	0.012% – 100%	0.0246% – 100%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

34 SHARE CAPITAL

Authorised and issued share capital

	December 31, 2017	December 31, 2016
Ordinary shares in Mainland China	3,803,932	3,803,932
Ordinary shares listed in Hong Kong (H-share)	1,518,000	1,518,000
Total	5,321,932	5,321,932

In December 2015, the Bank issued 1,200 million H-shares with a par value of RMB1 at an offering price of HKD3.85 per share (the “H-share offering”). The premium arising from the H-share offering amounting to RMB2,562 million was recorded in capital reserve. Immediately following the H-share offering, 120 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

In January 2016, the Bank issued 180 million H-shares (the “H-shares’ over-allotment option”) with a par value of RMB1 at an offering price of HKD3.85 per share. The premium arising from the H-shares’ over-allotment option amounting to RMB392 million was recorded in capital reserve.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited since January 20, 2016. The H-shares rank pari passu in all respects with the existing ordinary shares in Mainland China including the right to receive all dividends and distributions declared or made.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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35 RESERVES

(1) Capital reserve

	December 31, 2017	December 31, 2016
Share premium	2,990,254	2,990,312
Others	64,615	63,892
Total	3,054,869	3,054,204

(2) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital. The Bank appropriated an amount of RMB422 million to the statutory surplus reserve fund for the year of 2017 (2016: RMB395 million).

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(3) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the MOF on July 1, 2012, the Bank and its subsidiaries are required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The Bank and its subsidiaries appropriated an amount of RMB993 million to the general reserve fund for the year of 2017 (2016: RMB1,365 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

35 RESERVES (Continued)

(4) Fair value reserve

	2017	2016
As at January 1	2,841	10,405
Change in fair value recognised in other comprehensive income	(1,751)	33,961
Transfer to profit or loss upon disposal	(32,259)	(44,047)
Less: deferred income tax	8,502	2,522
Sub-total	(25,508)	(7,564)
As at December 31	(22,667)	2,841

(5) Remeasurement of net defined benefit liability

Remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	2017	2016
As at January 1	(52,259)	(55,339)
Remeasuring the net defined benefit liability	(472)	4,107
Less: deferred income tax	117	(1,027)
Sub-total	(355)	3,080
As at December 31	(52,614)	(52,259)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

35 RESERVES (Continued)

(6) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

The Bank

Note						Remeasurement		Retained earnings	Total
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Fair value reserve	of net defined benefit liability		
Balance at January 1, 2017	5,321,932	-	3,054,204	1,632,893	4,513,200	2,841	(52,259)	6,776,506	21,249,317
Profit for the year	-	-	-	-	-	-	-	4,218,626	4,218,626
Other comprehensive income	-	-	-	-	-	(25,508)	(355)	-	(25,863)
Total comprehensive income	-	-	-	-	-	(25,508)	(355)	4,218,626	4,192,763
Changes in share capital									
- Share capital invested by other equity instrument holders	37	-	7,825,508	-	-	-	-	-	7,825,508
- Others		-	-	723	-	-	-	-	723
Sub-total		-	7,825,508	723	-	-	-	-	7,826,231
Appropriation of profit:									
- Appropriation to surplus reserve	35(2)	-	-	-	421,863	-	-	(421,863)	-
- Appropriation to general reserve	35(3)	-	-	-	-	950,000	-	(950,000)	-
- Cash dividend	36	-	-	-	-	-	-	(1,170,825)	(1,170,825)
Sub-total		-	-	-	421,863	950,000	-	(2,542,688)	(1,170,825)
Balance at December 31, 2017	5,321,932	7,825,508	3,054,927	2,054,756	5,463,200	(22,667)	(52,614)	8,452,444	32,097,486

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

35 RESERVES (Continued)

(6) Movements in components of equity (Continued)

The Bank (Continued)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Total
Balance at January 1, 2016		5,141,932	2,662,564	1,237,793	3,163,200	10,405	(55,339)	5,634,991	17,795,546
Profit for the year		-	-	-	-	-	-	3,951,001	3,951,001
Other comprehensive income		-	-	-	-	(7,564)	3,080	-	(4,484)
Total comprehensive income		-	-	-	-	(7,564)	3,080	3,951,001	3,946,517
Changes in share capital									
- Issue of H-shares	34/35	180,000	392,422	-	-	-	-	-	572,422
- Others		-	(782)	-	-	-	-	-	(782)
Sub-total		180,000	391,640	-	-	-	-	-	571,640
Appropriation of profit:									
- Appropriation to surplus reserve	35(2)	-	-	395,100	-	-	-	(395,100)	-
- Appropriation to general reserve	35(3)	-	-	-	1,350,000	-	-	(1,350,000)	-
- Cash dividend	36	-	-	-	-	-	-	(1,064,386)	(1,064,386)
Sub-total		-	-	395,100	1,350,000	-	-	(2,809,486)	(1,064,386)
Balance at December 31, 2016		5,321,932	3,054,204	1,632,893	4,513,200	2,841	(52,259)	6,776,506	21,249,317

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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36 PROFIT DISTRIBUTION

- (1) In accordance with the resolution of the Bank's 2016 Annual General Meeting held on May 19, 2017, the shareholders approved the profit distribution plan for the year ended December 31, 2016 and declared cash dividends of RMB2.20 per ten shares before tax and in an aggregation amount of approximately RMB1,171 million to all existing shareholders.
- (2) In accordance with the resolution of the Bank's 2015 Annual General Meeting held on June 17, 2016, the shareholders approved the profit distribution plan for the year ended December 31, 2015 and declared cash dividends of RMB2.00 per ten shares before tax and in an aggregation amount of approximately RMB1,064 million to all existing shareholders.

37 OTHER EQUITY INSTRUMENTS

(1) Preference shares outstanding at the end of the year:

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Offshore preference shares	2017/10/18	Equity	5.50%	USD20/ share	59,550,000	1,191	7,860	None	Mandatory conversion trigger events
Less: issuing cost							(34)		
Book value							7,826		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

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37 OTHER EQUITY INSTRUMENTS (Continued)

(2) Main clause

(a) Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares. Dividends will be paid annually.

If the Bank has distributable after-tax profit after making up for previous years' losses and contributing to the statutory reserve and general reserve, the Bank may pay dividends to the offshore preference shareholders in accordance with the articles of association of the Bank, provided that the capital adequacy ratio of the Bank meets regulatory requirements. The offshore preference shareholders shall rank in priority to the ordinary shareholders in terms of dividend distribution.

Any declaration and payment of all of the dividends on the offshore preference shares by the Bank will be determined by the board in accordance with the authorisation given by the general meeting. Any cancellation of all or part of the dividends on the offshore preference shares shall be subject to the consideration and approval by the general meeting. If the Bank cancels all or part of the distribution of dividends on the offshore preference shares, the Bank shall not distribute any dividends to the ordinary shareholders from the next day following the resolution being approved at the general meeting until the resumption of payment of dividends in full.

(b) Dividend accumulation

The dividends on the offshore preference shares will be non-cumulative (namely, in the event of any cancellation by the Bank of all or part of the dividends on the offshore preference shares, any amount of dividends not paid to the offshore preference shareholders in full in the current period will not be accumulated to the following dividend periods).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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37 OTHER EQUITY INSTRUMENTS (Continued)

(2) Main clause (Continued)

(c) *Distribution of residual profits*

After receiving the dividends at the prescribed dividend rate, the offshore preference shareholders shall not be entitled to any distribution of residual profits of the Bank together with the ordinary shareholders.

(d) *Mandatory conversion trigger events*

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all or part of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. In case of partial conversion, the offshore preference shares shall be converted ratably and on the same conditions. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the CBRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

(e) *Conditional redemption*

From the fifth year following the date of issuance of the offshore preference shares, and subject to obtaining the approval of the CBRC or its affiliates and the compliance with the relevant requirements, the Bank shall have the right to redeem all or part of the offshore preference shares.

The redemption price of the offshore preference shares will be an amount equal to the issue price plus the amount of dividend declared but unpaid for the current period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

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38 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	December 31, 2017	December 31, 2016
Cash on hand	768,348	956,980
Surplus deposit reserves with central bank	12,122,850	13,824,798
Deposits with banks and other financial institutions with original maturity of three months or less	4,598,622	1,341,021
Placements with banks and other financial institutions with original maturity of three months or less	1,764,234	–
Total	19,254,054	16,122,799

(b) Information on acquisition of a subsidiary during the year:

	Year ended June 30 2017	2016
Cash and cash equivalents paid during the year for acquiring a subsidiary	3,465	–
Prepayment on acquisition of a subsidiary	–	31,185
Less: Cash and cash equivalents held by acquired subsidiary	(71,901)	–
Net (proceeds from)/prepayment on acquisition of a subsidiary	(68,436)	31,185

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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38 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Liabilities			Equity			Total
	Debt securities issued	Interest payable arising from debt securities issued	Dividend payable	Other equity instruments	Retained earnings	Non-controlling interests	
Balance as at January 1, 2017	44,660,446	82,372	23,373	–	6,808,978	564,997	52,140,166
Cash flows from financing activities	–	–	–	–	–	–	–
Proceeds received from issuance of preference shares	–	–	–	7,825,508	–	–	7,825,508
Capital contribution by non-controlling interests	–	–	–	–	–	552,750	552,750
Proceeds received from debt securities issued	103,216,337	–	–	–	–	–	103,216,337
Interest paid on debt securities issued	702,160	120,546	–	–	(2,760,788)	–	(1,938,082)
Repayment of debt securities issued	(75,408,883)	–	–	–	–	–	(75,408,883)
Dividends paid	–	–	1,479	–	(1,170,825)	–	(1,169,346)
Net cash flows generated from financing activities	28,509,614	120,546	1,479	7,825,508	(3,931,613)	552,750	33,078,284
Effect of foreign exchange rate changes on cash and cash equivalents	–	–	(525)	–	–	–	(525)
Total equity-related other change	–	–	–	–	5,626,418	115,731	5,742,149
Balance at December 31, 2017	73,170,060	202,918	24,327	7,825,508	8,503,783	1,233,478	90,960,074

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

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39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above shareholding.

Shareholding in the Bank:

	December 31, 2017	December 31, 2016
Zhengzhou Finance Bureau	9.22%	9.22%

(b) Subsidiaries and associates of the Bank

The detailed information of the Bank's subsidiaries and associates is set out in Note 22.

(c) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 39(1)(a) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Bank (Note 33(2)).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with major shareholders

	December 31, 2017	December 31, 2016
Balances at the end of the year:		
Deposits from customers	190,355	473,204
Interest payable	20	50
Other liabilities	64,285	64,285
Transactions during the year:		
Interest expense	892	725

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(b) Transactions with subsidiaries

	December 31, 2017	December 31, 2016
Balances at the end of the year:		
Deposits from banks and other financial institutions	278,519	450,774
Interest payable	341	556
	2017	2016
Transactions during the year:		
Interest income	2,306	—
Interest expense	23,169	8,204

The above balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements.

(c) Transactions with associates

	December 31, 2017	December 31, 2016
Balances at the end of the year:		
Deposits/placements with banks and other financial institutions	100,909	50,900
Interest receivables	151	1,330
Deposits/placements from banks and other financial institutions	319,997	169,982
Interest payable	355	37

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(c) Transactions with associates (Continued)

	2017	2016
Transactions during the year:		
Interest income	2,053	8,632
Interest expense	887	30,069

(d) Transactions with other important related parties

	December 31, 2017	December 31, 2016
Balances at the end of the year:		
Loans and advances to customers	3,803,531	1,941,111
Financial investments classified as loans and receivables	3,697,000	1,500,000
Interest receivables	34,777	4,534
Deposits from customers	8,642,052	4,285,915
Deposits/placements from banks and other financial institutions	252,526	114,674
Interest payable	14,717	4,760

	2017	2016
Transactions during the year:		
Interest income	398,589	191,728
Interest expense	78,618	52,633

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(3) Key management personnel

(a) Transactions with key management personnel

	December 31, 2017	December 31, 2016
Balances at the end of the year:		
Loans and advances to customers	13,076	8,582
Interest receivables	10	11
Deposits from customers	14,170	19,258
Interest payable	22	4
	2017	2016
Transactions during the year:		
Interest income	584	348
Interest expense	125	88

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(3) Key management personnel (Continued)

(b) Key management personnel remuneration

	2017	2016
Salaries and other emoluments	12,743	11,531
Discretionary bonuses	25,149	21,135
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	2,812	2,751
Total	40,704	35,417

No post-employment benefits, termination benefits or other long-term benefits were provided to key management personnel for the years ended December 31, 2017 and December 31, 2016.

(c) Loans to key officers

Loans and advances to directors, supervisors and officers of the Bank, which are disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap.622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap.32), are as follows:

	December 31, 2017	December 31, 2016
Aggregate amount of relevant loans outstanding as at the year end	13,076	8,582
Maximum aggregate amount of relevant loans outstanding during the year	24,099	19,832

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2017 (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

40 SEGMENT REPORTING

(1) Business Segment

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

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade finance and deposit taking activities, financial leasing services, agency services, and remittance and settlement services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services, remittance and settlement services, and collection and payment agency services.

Treasury business

This segment covers the Group's treasury business including interbank money market transactions, repurchases transactions and investments. The treasury segment also covers management of the Group's overall liquidity position, including issuance of debts.

Others

These represent equity investment and related income and any other business which cannot form a single reportable segment.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

40 SEGMENT REPORTING (Continued)

(1) Business Segment (Continued)

Others (Continued)

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, with the exception of deferred income tax assets. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, intangible assets and other long-term assets.

	Year ended December 31, 2017				Total Operating income
	Corporate banking	Retail banking	Treasury business	Others	
Operating Income					
External net interest income	2,862,457	765,753	4,477,832	—	8,106,042
Internal net interest income/(expense)	855,109	525,148	(1,380,257)	—	—
Net interest income	3,717,566	1,290,901	3,097,575	—	8,106,042
Net fee and commission income	598,545	77,997	1,188,591	—	1,865,133
Net trading losses	—	—	(474,716)	—	(474,716)
Net gains arising from investments	—	—	546,473	—	546,473
Other operating income	—	—	—	170,053	170,053

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

40 SEGMENT REPORTING (Continued)

(1) Business Segment (Continued)

Others (Continued)

	Year ended December 31, 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total Operating income
Operating income	4,316,111	1,368,898	4,357,923	170,053	10,212,985
Operating expenses	(1,271,826)	(471,995)	(944,768)	(64,519)	(2,753,108)
Impairment losses on assets	(1,187,744)	(649,206)	(120,000)	–	(1,956,950)
Operating profit	1,856,541	247,697	3,293,155	105,534	5,502,927
Share of profits of associates	–	–	–	44,333	44,333
Profit before taxation	1,856,541	247,697	3,293,155	149,867	5,547,260
Other segment information					
– Depreciation and amortisation	141,288	69,083	51,306	–	261,677
– Capital expenditure	357,605	133,543	259,284	7,901	758,333

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

40 SEGMENT REPORTING (Continued)

(1) Business Segment (Continued)

Others (Continued)

	December 31, 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	135,166,061	47,444,212	250,530,100	1,418,098	434,558,471
Deferred tax assets					1,270,416
Total assets					435,828,887
Segment liabilities/ Total liabilities	187,633,898	71,725,668	141,636,728	1,393,228	402,389,522
Credit commitments	66,790,405	1,275,828	—	—	68,066,233

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

40 SEGMENT REPORTING (Continued)

(1) Business Segment (Continued)

Others (Continued)

	Year ended December 31, 2016				Total
	Corporate banking	Retail banking	Treasury business	Others	
Operating income					
External net interest income	2,876,115	600,720	4,823,158	–	8,299,993
Internal net interest income/(expense)	501,471	344,227	(845,698)	–	–
Net interest income	3,377,586	944,947	3,977,460	–	8,299,993
Net fee and commission income	517,463	90,485	606,493	–	1,214,441
Net trading gains	–	–	79,267	–	79,267
Net gains arising from investments	–	–	207,995	–	207,995
Other operating income	–	–	–	178,790	178,790
Operating income	3,895,049	1,035,432	4,871,215	178,790	9,980,486
Operating expenses	(1,112,862)	(417,344)	(867,596)	(36,722)	(2,434,524)
Impairment losses on assets	(1,674,808)	(386,564)	(285,000)	–	(2,346,372)
Operating profit	1,107,379	231,524	3,718,619	142,068	5,199,590
Share of profits of associates	–	–	–	57,443	57,443
Profit before taxation	1,107,379	231,524	3,718,619	199,511	5,257,033

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

40 SEGMENT REPORTING (Continued)

(1) Business Segment (Continued)

Others (Continued)

	Year ended December 31, 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Other segment information					
– Depreciation and amortisation	114,133	63,716	34,840	–	212,689
– Capital expenditure	191,695	107,016	58,517	4,021	361,249
	December 31, 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	121,525,598	37,659,309	204,406,701	1,586,706	365,178,314
Deferred tax assets					969,658
Total assets					366,147,972
Segment liabilities/					
Total liabilities	153,771,965	65,315,377	124,399,087	800,168	344,286,597
Credit commitments	62,277,614	1,005,794	–	–	63,283,408

(2) Geographical information

Geographically, the Group mainly conducts its business and majority of its customers and assets are located in Henan Province of the PRC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT

The Group is primarily exposed to credit, interest rate, currency and liquidity risks from its use of financial instruments in the normal course of the Group's operations. This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and minimise potential adverse effects.

The Board of Directors (the "Board") is the highest decision-making authority within the Group in terms of risk management and oversees the Group's risk management functions through the Risk Management Committee. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Management Committee of the Board. Based on the risk management strategies determined by the Board, senior management is responsible for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and debt investments portfolios and guarantees granted.

Credit business

The Board is responsible for establishing the Group's risk management strategies and the overall risk tolerance level. The Board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies, ensures that credit risk in various businesses are properly identified, assessed, calculated and monitored. The Risk Management Department is responsible for credit risk management. Departments such as the Corporate Business Department, the Retail Banking Department, the Financial Department of Small Business, the Interbank Department and the Financial Markets Department carry out credit businesses and investments portfolios business according to the Group's risk management policies and procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

Credit business (Continued)

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury Business

The Group's treasury business are exposed to the credit risk associated with the investment business and interbank business. The Group manages the credit risk exposures by setting up credit on its treasury business and interbank business. Credit risk exposure is closely monitored on a systematic, real-time basis. Credit risk limits are reviewed and updated regularly.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

Treasury Business (Continued)

(a) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of each of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of each of the reporting period is disclosed in Note 43(1).

(b) Loans and advances to customers

	December 31, 2017	December 31, 2016
Gross balance of loans and advances to customers		
– Neither overdue nor impaired	121,576,757	105,873,597
– Overdue but not impaired	4,954,035	3,761,578
– Impaired	1,925,686	1,457,064
Sub-total	128,456,478	111,092,239
Less: allowance for impairment loss		
– Neither overdue nor impaired	(2,500,249)	(2,326,501)
– Overdue but not impaired	(719,329)	(495,167)
– Impaired	(780,958)	(637,164)
Sub-total	(4,000,536)	(3,458,832)
Net balance		
– Neither overdue nor impaired	119,076,508	103,547,096
– Overdue but not impaired	4,234,706	3,266,411
– Impaired	1,144,728	819,900
Total	124,455,942	107,633,407

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

Treasury Business (Continued)

(b) Loans and advances to customers (Continued)

(i) Neither overdue nor impaired

Credit risk of loans and advances to customers neither overdue nor impaired was analysed as follows:

	December 31, 2017	December 31, 2016
Corporate loans and advances	89,263,328	82,357,390
Personal loans and advances	32,313,429	23,516,207
Total gross balance	121,576,757	105,873,597

(ii) Overdue but not impaired

The following tables present the overdue analysis of each type of loans and advances to customers of the Group which were overdue but not impaired as at the end of the reporting period.

	December 31, 2017				Total
	Less than 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	971,263	1,676,854	779,303	34,785	3,462,205
Personal loans and advances	369,630	519,940	478,327	123,933	1,491,830
Total gross balance	1,340,893	2,196,794	1,257,630	158,718	4,954,035

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

Treasury Business (Continued)

(b) *Loans and advances to customers (Continued)*

(ii) Overdue but not impaired (Continued)

	December 31, 2016				
	Less than 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	Total
Corporate loans and advances	843,744	1,564,393	279,922	15,186	2,703,245
Personal loans and advances	328,796	468,962	260,175	400	1,058,333
Total gross balance	1,172,540	2,033,355	540,097	15,586	3,761,578

	December 31, 2017	December 31, 2016
Fair value of collateral held against loans and advances overdue but not impaired	3,252,167	3,051,757

The above collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

Treasury Business (Continued)

(b) Loans and advances to customers (Continued)

(iii) Impaired loans

	December 31, 2017	December 31, 2016
Gross balance		
– Corporate loans and advances	1,617,673	1,216,287
– Personal loans and advances	308,013	240,777
Sub-total	1,925,686	1,457,064
% of total loans and advances	1.50%	1.31%
Allowance for impairment losses		
– Corporate loans and advances	(640,455)	(536,463)
– Personal loans and advances	(140,503)	(100,701)
Sub-total	(780,958)	(637,164)
Net balance		
– Corporate loans and advances	977,218	679,824
– Personal loans and advances	167,510	140,076
Total	1,144,728	819,900
Fair value of collateral held against impaired loans and advances	1,313,544	697,242

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

Treasury Business (Continued)

(b) Loans and advances to customers (Continued)

(iv) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrowers' financial conditions or of the borrowers' inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or assumption of the loans by a borrower with better repayment ability. Rescheduling is most commonly applied to term loans. There were no rescheduled loans as at December 31, 2016 and 2017.

(c) Amounts due from banks and other financial institutions

The Group adopts an internal credit rating approach in managing the credit risk of amounts due from banks and other financial institutions. The distribution according to the credit rating of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	December 31, 2017	December 31, 2016
Carrying amount		
<i>Neither overdue nor impaired</i>		
– grade A to AAA	22,775,611	15,781,416
– grade B to BBB	1,123,835	1,635,441
– unrated	529,207	875,854
Total	24,428,653	18,292,711

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

Treasury Business (Continued)

(d) Debt securities investments

The credit risk of debt securities investments mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities investments by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers:

	December 31, 2017	December 31, 2016
Carrying amount		
<i>Neither overdue nor impaired</i>		
– Government	20,177,393	14,783,193
– Policy banks	30,253,171	32,869,336
– Banks and other financial institutions	6,283,256	6,916,944
– Corporate	7,505,397	4,974,148
Total	64,219,217	59,543,621

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

Treasury Business (Continued)

(e) Financial investments classified as loans and receivables

	December 31, 2017	December 31, 2016
Gross balance of financial investments classified as loans and receivables		
– Neither overdue nor impaired	114,379,282	118,429,929
– Overdue but not impaired	2,525,000	225,000
– Impaired	206,561	90,000
Sub-total	117,110,843	118,744,929
Less: allowance for impairment loss		
– Neither overdue nor impaired	(440,622)	(417,727)
– Overdue but not impaired	(117,830)	(76,858)
– Impaired	(81,561)	(25,428)
Sub-total	(640,013)	(520,013)
Net balance		
– Neither overdue nor impaired	113,938,660	118,012,202
– Overdue but not impaired	2,407,170	148,142
– Impaired	125,000	64,572
	116,470,830	118,224,916
Fair value of collaterals held against financial investments classified as loans and receivables overdue but not impaired	4,486,208	780,228
Fair value of collaterals held against impaired financial investments classified as loans and receivables	125,000	64,572

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices. The market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within the acceptable limit and maximise the risk-adjusted income.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Management Committee to supervise the market risk management conducted by the senior management. The Finance and Accounting Department, Trade Finance Department, Financial Markets Department and Risk Management Department are responsible for identifying, measuring, monitoring and reporting the market risk.

The Group employed sensitivity analysis, interest repricing gap analysis, foreign currency gap analysis, stress testing and effective duration analysis to measure and monitor the market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Interest repricing gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

(a) Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

(1) Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Finance and Accounting Department and the Risk Management Department are responsible for identifying, measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(a) Interest rate risk (Continued)

(1) Repricing risk (Continued)

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	December 31, 2017					
	Total	Non-interest bearing	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits						
with central bank	45,635,132	1,179,134	44,455,998	–	–	–
Deposits/placements						
with banks and other financial institutions	20,021,177	303,103	8,365,841	11,339,733	7,500	5,000
Financial assets held under resale agreements	4,407,476	–	4,407,476	–	–	–
Loans and advances						
to customers (i)	124,455,942	–	90,087,783	31,717,262	2,219,858	431,039
Investments (ii)	222,954,437	288,591	31,217,809	41,466,381	102,898,199	47,083,457
Finance lease receivables	10,490,994	–	7,868,449	2,622,545	–	–
Others	7,863,729	7,500,984	362,745	–	–	–
Total assets	435,828,887	9,271,812	186,766,101	87,145,921	105,125,557	47,519,496

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(a) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	December 31, 2017					
	Total	Non-interest bearing	Within three months (inclusive)	Between		
				three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Due to central bank	1,599,550	–	1,000,000	599,550	–	–
Deposits/placements from banks and other financial institutions	51,282,755	–	14,174,466	37,008,289	100,000	–
Financial assets sold under repurchase agreements	14,085,500	–	14,085,500	–	–	–
Deposits from customers	255,407,398	295,136	150,653,254	59,072,809	45,386,199	–
Debt securities issued	73,170,060	–	20,590,717	42,585,365	9,993,978	–
Others	6,844,259	6,811,949	–	32,310	–	–
Total liabilities	402,389,522	7,107,085	200,503,937	139,298,323	55,480,177	–
Asset-liability gap	33,439,365	2,164,727	(13,737,836)	(52,152,402)	49,645,380	47,519,496

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(a) Interest rate risk (Continued)

(1) Repricing risk (Continued)

December 31, 2016						
	Total	Non-interest bearing	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	42,586,362	992,987	41,593,375	–	–	–
Deposits/placements with banks and other financial institutions	13,173,143	14,774	2,246,064	10,907,305	–	5,000
Financial assets held under resale agreements	5,119,568	–	5,119,568	–	–	–
Loans and advances to customers (i)	107,633,407	–	88,385,736	18,629,953	600,530	17,188
Investments (ii)	183,399,045	263,595	43,018,787	42,725,015	68,842,106	28,549,542
Finance lease receivables	5,721,061	–	5,721,061	–	–	–
Others	8,515,386	6,297,786	2,217,600	–	–	–
Total assets	366,147,972	7,569,142	188,302,191	72,262,273	69,442,636	28,571,730

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(a) Interest rate risk (Continued)

(1) Repricing risk (Continued)

December 31, 2016						
	Total	Non-interest bearing	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Due to central bank	77,000	–	–	77,000	–	–
Deposits/placements from banks and other financial institutions	44,913,864	–	14,429,075	29,784,789	700,000	–
Financial assets sold under repurchase agreements	33,251,370	–	33,251,370	–	–	–
Deposits from customers	216,389,640	319,554	124,472,530	50,290,988	41,306,568	–
Debt securities issued	44,660,446	–	10,321,123	26,741,379	7,597,944	–
Others	4,994,277	4,994,277	–	–	–	–
Total liabilities	344,286,597	5,313,831	182,474,098	106,894,156	49,604,512	–
Asset-liability gap	21,861,375	2,255,311	5,828,093	(34,631,883)	19,838,124	28,571,730

- (i) For the Group's loans and advances to customers, the category "Within three months (inclusive)" as at December 31, 2017 includes overdue amounts (net of allowance for impairment losses) of RMB5,379 million (December 31, 2016: RMB4,086 million).
- (ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables and interest in associates, the category "Within three months (inclusive)" as at December 31, 2017 includes overdue amounts (net of allowance for impairment losses) of RMB2,472 million (December 31, 2016: RMB213 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(a) Interest rate risk (Continued)

(2) Interest rate sensitivity analysis

	December 31, 2017 (Decrease)/ Increase	December 31, 2016 (Decrease)/ Increase
Change in net profit		
Up 100 bps parallel shift in yield curves	(386,729)	(151,094)
Down 100 bps parallel shift in yield curves	386,729	151,094

	December 31, 2017 (Decrease)/ Increase	December 31, 2016 (Decrease)/ Increase
Change in equity		
Up 100 bps parallel shift in yield curves	(414,627)	(175,169)
Down 100 bps parallel shift in yield curves	370,456	175,169

The sensitivity analysis above is based on a static interest risk exposure profile of assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the beginning of the respective periods;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio, all the position will be held and keep unchanged after matured; and
- The analysis does not take into account the effect of risk management measures taken by the management.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(a) Interest rate risk (Continued)

(2) Interest rate sensitivity analysis (Continued)

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(b) Currency risk

The Group's currency risk mainly arises from foreign currency loans and deposits from customers. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the reporting period are as follows:

	December 31, 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	44,768,691	864,676	1,765	45,635,132
Deposits/placements with banks and other financial institutions	1,252,260	18,512,003	256,914	20,021,177
Financial assets held under resale agreements	4,407,476	—	—	4,407,476
Loans and advances to customers	123,401,784	1,054,158	—	124,455,942
Investments (i)	217,464,588	5,239,125	250,724	222,954,437
Finance lease receivables	10,490,994	—	—	10,490,994
Others	7,641,607	222,122	—	7,863,729
Total assets	409,427,400	25,892,084	509,403	435,828,887

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(b) Currency risk (Continued)

The Group's currency exposures as at the end of the reporting period are as follows:
(Continued)

	December 31, 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Liabilities				
Due to central bank	1,599,550	—	—	1,599,550
Deposits/placements from Banks and other financial institutions	51,282,755	—	—	51,282,755
Financial assets sold under repurchase agreements	14,085,500	—	—	14,085,500
Deposits from customers	239,066,363	16,262,297	78,738	255,407,398
Debt securities issued	73,170,060	—	—	73,170,060
Others	6,077,723	285,128	481,408	6,844,259
Total liabilities	385,281,951	16,547,425	560,146	402,389,522
Net position	24,145,449	9,344,659	(50,743)	33,439,365
Off-balance sheet credit commitments	66,363,583	1,623,457	79,193	68,066,233

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(b) Currency risk (Continued)

The Group's currency exposures as at the end of the reporting period are as follows:
(Continued)

	December 31, 2016			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	41,924,686	658,977	2,699	42,586,362
Deposits/placements with banks and other financial institutions	1,217,234	11,860,728	95,181	13,173,143
Financial assets held under resale agreements	5,119,568	–	–	5,119,568
Loans and advances to customers	107,333,249	300,158	–	107,633,407
Investments (i)	181,101,311	1,938,525	359,209	183,399,045
Finance lease receivables	5,721,061	–	–	5,721,061
Others	8,405,561	109,825	–	8,515,386
Total assets	350,822,670	14,868,213	457,089	366,147,972

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(b) Currency risk (Continued)

The Group's currency exposures as at the end of the reporting period are as follows:
(Continued)

	December 31, 2016			Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	
Liabilities				
Due to central bank	77,000	–	–	77,000
Deposits/placements from Banks and other financial institutions	44,913,864	–	–	44,913,864
Financial assets sold under repurchase agreements	33,251,370	–	–	33,251,370
Deposits from customers	203,931,962	12,457,528	150	216,389,640
Debt securities issued	44,660,446	–	–	44,660,446
Others	4,849,474	144,615	188	4,994,277
Total liabilities	331,684,116	12,602,143	338	344,286,597
Net position	19,138,554	2,266,070	456,751	21,861,375
Off-balance sheet credit commitments	62,092,376	1,191,032	–	63,283,408

- (i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables and interest in associates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(b) Currency risk (Continued)

	December 31, 2017 Increase/ (decrease)	December 31, 2016 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	10,668	2,944
Down 100 bps change of foreign exchange rate	(10,668)	(2,944)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- The foreign currency exposures calculated includes spot and forward foreign exchange exposures and swaps, and all the position will be held and keep unchanged after mature; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(3) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong.

The Group has implemented the centralised management of the Group-wide liquidity risk by the head office, and established the Risk Management Committee which mainly comprises the Liquidity Risk Management Committee, the Asset and Liability Management Committee and the Finance and Accounting Department at the head office. The responsibilities of them are as following:

- the Risk Management Committee and the Asset and Liability Management Committee are the decision-making bodies for liquidity risk management and are responsible for formulating the guidelines and policies for liquidity risk management;
- the Finance and Accounting Department is the liquidity risk management department and is responsible for implementing relevant liquidity risk management policies, monitoring various liquidity risk indicators; formulating, implementing and evaluating relevant systems, setting the Group-wide risk warning limits and guiding various business departments to manage liquidity risk on a daily basis; regularly carrying out risk analysis and reporting to the Risk Management Committee and the Asset and Liability Management Committee.

The Group manages liquidity risk by monitoring the maturities of the assets and liabilities, while actively monitoring multiple liquidity indicators, including loan to deposit ratio, liquidity ratio, reserve ratio, liquidity gap ratio, and etc.

The Group also formulates liquidity risk emergency plan to ensure sufficient liquidity under various market conditions.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a major source of funds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(a) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	December 31, 2017						Total
	Indefinite	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets							
Cash and deposits with central bank	32,743,934	12,891,198	–	–	–	–	45,635,132
Deposits/placements with banks and other financial institutions	5,000	1,174,854	7,494,090	11,339,733	7,500	–	20,021,177
Financial assets held under resale agreements	–	–	4,407,476	–	–	–	4,407,476
Loans and advances to customers	4,119,917	2,368,855	18,378,439	61,055,985	23,270,331	15,262,415	124,455,942
Investments	456,231	2,364,529	27,264,071	42,709,660	102,969,192	47,190,754	222,954,437
Finance lease receivables	–	–	573,671	2,422,037	7,470,691	24,595	10,490,994
Others	3,620,768	36,288	2,201,026	1,820,802	167,913	16,932	7,863,729
Total assets	40,945,850	18,835,724	60,318,773	119,348,217	133,885,627	62,494,696	435,828,887

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(a) Maturity analysis (Continued)

	December 31, 2017						Total
	Indefinite	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities							
Due to central bank	-	-	1,000,000	599,550	-	-	1,599,550
Deposits/placements from banks and other financial institutions	-	676,366	13,498,100	37,008,289	100,000	-	51,282,755
Financial assets sold under repurchase agreements	-	-	14,085,500	-	-	-	14,085,500
Deposits from customers	-	111,125,769	36,702,622	59,072,808	48,506,199	-	255,407,398
Debt securities issued	-	-	20,590,717	42,585,365	9,993,978	-	73,170,060
Others	-	332,480	5,419,627	348,676	627,509	115,967	6,844,259
Total liabilities	-	112,134,615	91,296,566	139,614,688	59,227,686	115,967	402,389,522
Long/(short) position	40,945,850	(93,298,891)	(30,977,793)	(20,266,471)	74,657,941	62,378,729	33,439,365

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(a) Maturity analysis (Continued)

December 31, 2016							
			Within three months	Between three months and one year	Between one year and five years	More than five years	Total
	Indefinite	Repayable on demand	(inclusive)	(inclusive)	(inclusive)		
Assets							
Cash and deposits with central bank	27,804,585	14,781,777	–	–	–	–	42,586,362
Deposits/placements with banks and other financial institutions	5,000	1,269,028	991,810	10,907,305	–	–	13,173,143
Financial assets held under resale agreements	–	–	5,119,568	–	–	–	5,119,568
Loans and advances to customers	2,979,993	1,964,833	19,674,888	57,376,160	17,644,019	7,993,514	107,633,407
Investments	476,190	–	34,413,058	49,780,090	69,761,988	28,967,719	183,399,045
Finance lease receivables	–	–	243,257	865,592	4,547,646	64,566	5,721,061
Others	2,815,553	90,285	2,850,573	2,264,771	489,172	5,032	8,515,386
Total assets	34,081,321	18,105,923	63,293,154	121,193,918	92,442,825	37,030,831	366,147,972

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(a) Maturity analysis (Continued)

	December 31, 2016						Total
	Indefinite	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities							
Due to central bank	-	-	-	77,000	-	-	77,000
Deposits/placements from banks and other financial institutions	-	1,170,375	13,258,700	29,784,789	700,000	-	44,913,864
Financial assets sold under repurchase agreements	-	-	33,251,370	-	-	-	33,251,370
Deposits from customers	-	96,415,037	28,377,046	50,290,989	41,306,568	-	216,389,640
Debt securities issued	-	-	10,321,123	26,741,379	7,597,944	-	44,660,446
Others	-	384,061	3,820,997	174,192	498,307	116,720	4,994,277
Total liabilities	-	97,969,473	89,029,236	107,068,349	50,102,819	116,720	344,286,597
Long/(short) position	34,081,321	(79,863,550)	(25,736,082)	14,125,569	42,340,006	36,914,111	21,861,375

Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables and interest in associates. The “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not impaired is included in “repayable on demand”.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(a) Maturity analysis (Continued)

For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not impaired is included in “repayable on demand”.

(b) Analysis on contractual undiscounted cash flows of financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the financial liabilities at the end of the reporting period:

	December 31, 2017						
	Carrying amount at December 31	Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Non-derivative cash flows:							
Due to central bank	1,599,550	1,599,807	–	1,000,134	599,673	–	–
Deposits/placements from banks and other financial institutions	51,282,755	53,264,632	676,512	13,937,277	38,543,829	107,014	–
Financial assets sold under repurchase agreements	14,085,500	14,121,581	–	14,121,581	–	–	–
Deposits from customers	255,407,398	268,036,084	111,166,502	38,793,599	61,730,805	56,345,178	–
Debt securities issued	73,170,060	76,110,978	–	20,796,000	44,159,400	11,155,578	–
Total non-derivative financial liabilities	395,545,263	413,133,082	111,843,014	88,648,591	145,033,707	67,607,770	–

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(b) Analysis on contractual undiscounted cash flows of financial liabilities (Continued)

	December 31, 2017						
	Carrying amount at December 31	Repayable on Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Derivative cash flows:							
Derivative financial instruments settled on net basis	21,014	21,014	-	-	21,014	-	-
Derivative financial instruments settled on gross basis:							
- Cash inflow	(659,882)	(682,115)	-	-	(682,115)	-	-
- Cash outflow	671,178	693,680	-	-	693,680	-	-
Total derivative financial instruments settled on gross basis	11,296	11,565	-	-	11,565	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(b) Analysis on contractual undiscounted cash flows of financial liabilities (Continued)

	December 31, 2016						
	Carrying amount at December 31	Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Due to central bank	77,000	78,585	–	–	78,585	–	–
Deposits/placements from banks and other financial institutions	44,913,864	45,345,725	1,170,791	13,303,788	30,093,988	777,158	–
Financial assets sold under repurchase agreements	33,251,370	33,298,280	–	33,298,280	–	–	–
Deposits from customers	216,389,640	221,986,731	96,432,137	29,198,997	52,073,946	44,281,651	–
Debt securities issued	44,660,446	46,426,344	–	10,370,000	27,612,400	8,443,944	–
Total non-derivative financial liabilities	339,292,320	347,135,665	97,602,928	86,171,065	109,858,919	53,502,753	–

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might vary from actual results.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(4) Operational risk

Operational risk refers to the risk of losses associated with internal process deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has formulated operational risk management policies and procedures, aiming to identify, assess, monitor, control and mitigate the operational risk, and reduce losses associated with the operational risk.

The Group's measures to manage the operational risk mainly include:

- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; making business risk assessment in time; carrying out centralised risk management on major business areas so as to reduce business operational risk;
- establishing a supervision system combining “on-site and off-site”, “regular and special”, “self and external” examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralized operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- the Compliance Department, the Risk Management Department and the Internal Audit Office constitute “three lines of defense” for operational risk management base on the separating responsibilities of the front, middle and the back offices. The Business and functional departments act as the first line of defense, the Compliance Department and the Risk Management Department act as the second line of defense and the Internal Audit Office acts as the third line of defense;
- establishing a compulsory leave and rotation policies to staff in key position or important process;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and
- establishing a mechanism for emergency management and business continuity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(5) Capital management

The Group manages capital mainly through capital adequacy ratio and return on equity ratio. Capital adequacy ratio is at the core of the Group's capital management, reflecting capacity of the Group for prudent operation and risk prevention. The return on equity ratio reflects the profitability of equity. The main objective of capital management is to maintain a balanced reasonable capital amount and structure in line with the business development and expected return on equity.

The Group follows the principles below with regard to capital management:

- monitor levels of asset quality based on the Group's business strategy and maintain adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements; and
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain the appropriate level of capital after considering the Group's risk exposure and risk management needs.

The Group monitors the capital adequacy ratio periodically and adjusts the capital management plan when necessary to ensure the capital adequacy ratio meets both the regulatory requirements and business development needs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(5) Capital management (Continued)

The Group calculates the capital adequacy ratios as at December 31, 2017 and 2016 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	Note	December 31, 2017	December 31, 2016
Total core tier-one capital			
– Share capital		5,321,932	5,321,932
– Valid portion of capital reserve		2,979,588	3,004,786
– Surplus reserve		2,054,756	1,632,893
– General reserve		5,520,320	4,527,789
– Retained earnings		8,503,783	6,808,978
– Valid portion of minority interests		452,798	363,130
Core tier-one capital		24,833,177	21,659,508
Core tier-one capital deductions		(456,513)	(383,789)
Net core tier-one capital		24,376,664	21,275,719
Additional tier-one capital			
– Additional tier-one capital instruments and related premium		7,825,508	–
– Valid portion of minority interests		60,373	37,266
Net tier-one capital		32,262,545	21,312,985

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (Continued)

(5) Capital management (Continued)

	Note	December 31, 2017	December 31, 2016
Tier-two capital			
– Qualifying portions of tier-two capital instruments issued		7,000,000	5,000,000
– Surplus provision for loan impairment		2,231,162	2,079,934
– Valid portion of minority interests		120,746	70,962
Net tier-two capital		9,351,908	7,150,896
Net capital base		41,614,453	28,463,881
Total risk weighted assets	(i)	307,474,718	242,109,283
Core tier-one capital adequacy ratio		7.93%	8.79%
Tier-one capital adequacy ratio		10.49%	8.80%
Capital adequacy ratio		13.53%	11.76%

- (i) Both the on-balance and off-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty as well as any eligible collateral or guarantees.
- (ii) Pursuant to the Notification on Matters Related to the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) in the Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the CBRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 10.1%, 8.1% and 7.1% at December 31, 2017 and 9.7%, 7.7% and 6.7% at December 31, 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs

The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair values:

(a) Debt securities investments

Fair values of debt securities investments are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(b) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of each of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (Continued)

(1) Methods and assumptions for measurement of fair value (Continued)

(c) *Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of each of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of each of the reporting period.

(d) *Derivatives*

Derivatives valued using a valuation technique with market observable inputs are currency swaps and options. The most frequently applied valuation techniques include discounted cash flow model and Black-Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc..

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (Continued)

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements assets				
Financial assets at fair value through profit or loss				
– debt securities	1,060,078	1,091,487	–	2,151,565
– investment funds	–	3,755,820	–	3,755,820
– Investment management products	–	5,941,912	–	5,941,912
Available-for-sale financial assets				
– debt instruments	–	2,799,831	32,278,067	35,077,898
Total	1,060,078	13,589,050	32,278,067	46,927,195
Recurring fair value measurements liabilities				
Derivative financial liabilities	–	32,310	–	32,310
Total	–	32,310	–	32,310
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements assets				
Financial assets at fair value through profit or loss				
– debt securities	519,614	8,031,683	–	8,551,297
– investment funds	–	394,800	–	394,800
Available-for-sale financial assets				
– debt instruments	–	1,321,276	4,972,113	6,293,389
Total	519,614	9,747,759	4,972,113	15,239,486

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (Continued)

(2) Financial instruments recorded at fair value (Continued)

During the year ended December 31, 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (December 31, 2016: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(3) Movement in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the year:

	January 1, 2017	Total gains recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Disposals/ Settlements	Transfers to Level 2 from Level 3	December 31, 2017
Financial assets:							
Available-for-sale financial assets							
– Debt instruments	4,972,113	565,011	(1,245)	31,419,845	(4,677,657)	–	32,278,067

	January 1, 2016	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Disposals/ Settlements	Transfers to Level 2 from Level 3	December 31, 2016
Financial assets:							
Available-for-sale financial assets							
– Debt instruments	4,359,941	190,612	–	4,360,716	(3,939,156)	–	4,972,113

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (Continued)

(3) Movement in level 3 financial instruments measured at fair value (Continued)

During the reporting period, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

Total gains recorded in profit or loss is recognised in the line item “interest income” on the face of the consolidated statement of profit or loss and other comprehensive income.

(4) Fair value of financial assets and liabilities not carried at fair value

	December 31, 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial asset					
Held-to-maturity investments	59,267,821	55,578,966	20,946,683	34,632,283	—
Total	59,267,821	55,578,966	20,946,683	34,632,283	—
Financial liabilities					
Debt securities issued					
– Financial bonds	5,596,521	5,539,835	—	5,539,835	—
– Tier-two capital bonds	6,997,457	6,754,825	—	6,754,825	—
– Interbank deposits	60,576,082	59,282,743	—	59,282,743	—
Total	73,170,060	71,577,403	—	71,577,403	—

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (Continued)

(4) Fair value of financial assets and liabilities not carried at fair value (Continued)

	December 31, 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial asset					
Held-to-maturity					
investments	49,671,048	48,837,029	16,157,343	32,679,686	–
Total	49,671,048	48,837,029	16,157,343	32,679,686	–
Financial liabilities					
Debt securities issued					
– Financial bonds	2,600,000	2,617,631	–	2,617,631	–
– Tier-two capital					
bonds	4,997,944	4,987,689	–	4,987,689	–
– Interbank deposits	37,062,502	35,715,648	–	35,715,648	–
Total	44,660,446	43,320,968	–	43,320,968	–

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods are adopted to determine the fair values of these assets and liabilities.

The fair values of held-to-maturity investments and debt securities issued are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (Continued)

(4) Fair value of financial assets and liabilities not carried at fair value (Continued)

Financial investments classified as loans and receivables are stated at amortized cost using the effective interest method. The fair value of financial investments classified as loans and receivables is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the financial investments classified as loans and receivables are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

The above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently, are as follows:

Assets	Liabilities
Cash and deposits with central bank	Due to central bank
Deposits with banks and other financial institutions	Deposits from banks and other financial institutions
Placements with banks and other financial institutions	Placements from banks and other financial institutions
Financial assets held under resale agreements	Financial assets sold under repurchase agreements
Loans and advances to customers	Deposits from customers
Finance lease receivables	Other financial liabilities
Other financial assets	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

43 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

The Group's credit commitments take the form of bank acceptances, unused credit card limits, letters of credit and guarantees.

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of unused credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	December 31, 2017	December 31, 2016
Bank acceptances	57,538,871	58,122,706
Letters of credit	5,264,644	2,984,292
Guarantees	3,986,890	1,170,616
Unused credit card commitments	1,275,828	1,005,794
Total	68,066,233	63,283,408

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

43 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(2) Credit risk-weighted amount

	December 31, 2017	December 31, 2016
Credit risk-weighted amount of contingent liabilities and commitments	18,630,228	18,879,397

The credit risk weighted amount represents the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights range from 0% to 150% for credit commitments.

(3) Operating lease commitments

As at December 31, 2017 and 2016, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	December 31, 2017	December 31, 2016
Within one year (inclusive)	118,156	91,208
After one year but within five years (inclusive)	292,948	244,262
After five years	197,308	165,679
Total	608,412	501,149

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

43 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(4) Capital commitments

As at December 31, 2017 and 2016, the authorised capital commitments of the Group are as follows:

	December 31, 2017	December 31, 2016
Contracted but not paid for	207,346	267,792
Approved but not contracted for	49,956	72,643
Total	257,302	340,435

(5) Outstanding litigations and disputes

As at December 31, 2017 and 2016, there are no significant legal proceedings outstanding against the Group.

(6) Pledged assets

	December 31, 2017	December 31, 2016
Debt securities	13,281,523	32,934,901
Total	13,281,523	32,934,901

Some of the Group's assets are pledged as collateral under repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

44 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at December 31, 2017 and 2016 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	December 31, 2017	
	Carrying amount	Maximum exposure
Financial investments		
– Financial assets at fair value through profit or loss	9,697,732	9,697,732
– Available-for-sale financial assets	28,044,753	28,044,753
– Financial investment classified as loans and receivables	102,127,230	102,127,230
Interest receivables	683,308	683,308
Total	140,553,023	140,553,023

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

44 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

(1) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

	December 31, 2016	
	Carrying amount	Maximum exposure
Financial investments		
– Financial assets at fair value through profit or loss	394,800	394,800
– Available-for-sale financial assets	4,972,113	4,972,113
– Financial investment classified as loans and receivables	105,249,436	105,249,436
Interest receivables	456,494	456,494
Total	111,072,843	111,072,843

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amount of the assets held by the Group and the related interest receivables at the end of each of the reporting period.

The interest income arising from the above unconsolidated structured entities for the year ended 2017 amounted to RMB6,258 million (2016: RMB5,440 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

44 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

(2) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in

The types of unstructured entities sponsored by the Group include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services.

As at December 31, 2017, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB37,501 million (December 31, 2016: RMB43,209 million).

During the year ended December 31, 2017, the amount of fee and commission income received from the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding year is RMB25 million (2016: RMB11 million).

During the year ended December 31, 2017, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding year is RMB22,109 million (2016: RMB11,883 million).

45 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at December 31, 2017, the entrusted loans balance of the Group is RMB8,375 million (As at December 31, 2016: RMB7,423 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
Assets		
Cash and deposits with central bank	45,545,998	42,565,761
Deposits with banks and other financial institutions	4,284,808	1,290,553
Placements with banks and other financial institutions	15,297,528	11,758,215
Financial assets at fair value through profit or loss	11,849,297	8,946,097
Financial assets held under resale agreements	4,407,476	5,119,568
Loans and advances to customers	123,722,963	107,471,481
Financial investments:		
Available-for-sale financial assets	35,086,298	6,301,789
Held-to-maturity investments	59,267,821	49,671,048
Loans and receivables	116,470,830	118,224,916
Interest in associates and subsidiaries	1,455,344	795,315
Property and equipment	1,787,973	1,679,243
Deferred tax assets	1,255,294	967,620
Other assets	4,333,046	3,570,533
Total assets	424,764,676	358,362,139
Liabilities		
Due to the central bank	1,500,000	—
Deposits from banks and other financial institutions	29,212,403	26,259,027
Placements from banks and other financial institutions	14,048,389	12,175,611
Derivative financial liabilities	32,310	—
Financial assets sold under repurchase agreements	14,085,500	33,251,370
Deposits from customers	254,502,449	216,176,986
Tax payable	659,883	568,325
Debt securities issued	73,170,060	44,660,446
Other liabilities	5,456,196	4,021,057
Total liabilities	392,667,190	337,112,822

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	December 31, 2017	December 31, 2016
Equity		
Share capital	5,321,932	5,321,932
Other financial Instruments		
– Preference shares	7,825,508	–
Capital reserve	3,054,927	3,054,204
Surplus reserve	2,054,756	1,632,893
General reserve	5,463,200	4,513,200
Fair value reserve	(22,667)	2,841
Remeasurement of net defined benefit liability	(52,614)	(52,259)
Retained earnings	8,452,444	6,776,506
Total equity	32,097,486	21,249,317
Total liabilities and equity	424,764,676	358,362,139

Approved and authorised for issue by the board of directors on March 22, 2018.

Wang Tianyu

Chairman of the Board of Directors

Executive Director

Shen Xueqing

President

Executive Director

Mao Yuezhen

Chief accountant

Li Guoquan

General Manager of the Planning and

Finance Department

(Company chop)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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47 SUBSEQUENT EVENTS

Up to the reporting date, the Group had no subsequent event for disclosure.

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended December 31, 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

		Effective for accounting period beginning on or after
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
Amendments to IFRS 1 and IAS 28	Annual Improvements to IFRSs 2014–2016 Cycle – various standards	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

Further information about those changes that are expected to affect the Group is as follows:

IFRS 9 “Financial instruments”

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 on a retrospective basis. The group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at January 1, 2018.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI then impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognised in profit or loss. Gains and losses on that security will be recognised in other comprehensive income without recycling.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017
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48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

Classification and measurement *(Continued)*

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). Based on its assessment, the Group does not believe that the requirements will have a material impact on its financial liabilities.

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

Disclosure

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

Impact on capital planning

The principal impact on the Group's regulatory capital of the implementation of IFRS 9 will arise from the new impairment requirements.

The Group's assessment indicates that the impact on capital resources of the implementation of IFRS 9 will be a reduction in core tier-one capital. Meanwhile, the excess of IFRS 9 loss allowances over minimum requirement on provisions will be added back to tier-two capital. The Group does not expect a significant impact on total capital.

Transition

The Group is required to adopt IFRS 9 Financial instruments from January 1, 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements. The estimated impact of the adoption of IFRS 9 on the Group's equity as at January 1, 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting IFRS 9 at January 1, 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs has been carried out, the new systems and associated controls in place have not been operational for a more extended period;
- the Group has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Group is refining and finalising its models for expected credit loss calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

Transition *(Continued)*

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt investment security has low credit risk at January 1, 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

The Group has estimated that, on the adoption of IFRS 9 at January 1, 2018, the impact of these changes (before tax) is a reduction in the Group's equity of approximately RMB1 billion.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

IFRS 16 “Leases”

In January 2016, the IASB issued IFRS 16, “Leases”, which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability.

Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

The Group is in the process of assessing the impact of the standard on the financial statements. So far it has concluded that the adoption of new standard is unlikely to have a significant impact on the financial statements.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

1 LIQUIDITY COVERAGE RATIOS AND LEVERAGE RATIO

	December 31, 2017	Average for the year ended December 31, 2017
Liquidity coverage ratio (<i>RMB and foreign currency</i>)	189.22%	225.23%

	December 31, 2016	Average for the year ended December 31, 2016
Liquidity coverage ratio (<i>RMB and foreign currency</i>)	256.91%	275.82%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 70%, 80%, 90% and 100% by the end of 2015, 2016, 2017 and 2018, respectively.

	December 31, 2017	December 31, 2016
Leverage Ratio	6.30%	5.15%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

Unaudited Supplementary Financial Information (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	December 31, 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	25,892,084	424,571	84,832	26,401,487
Spot liabilities	(16,547,425)	(481,548)	(78,598)	(17,107,571)
Net position	9,344,659	(56,977)	6,234	9,293,916

	December 31, 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	14,868,213	450,013	7,076	15,325,302
Spot liabilities	(12,602,143)	(338)	–	(12,602,481)
Net position	2,266,070	449,675	7,076	2,722,821

The Group has no structural position at the reporting periods.

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks and amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

Unaudited Supplementary Financial Information (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS (Continued)

	December 31, 2017			
	Banks and Other Financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	4,103,554	14,591	1,040,709	5,158,854
North and South America	162,237	—	—	162,237
Europe	81,826	—	—	81,826
	4,347,617	14,591	1,040,709	5,402,917

	December 31, 2016			
	Banks and Other Financial institutions	Public sector entities	Others	Total
North and South America	451,927	—	300,502	752,429
Asia Pacific excluding mainland China	91,634	—	—	91,634
Europe	6,480	—	—	6,480
	550,041	—	300,502	850,543

Unaudited Supplementary Financial Information (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

	December 31, 2017	December 31, 2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	1,074,269	831,657
– between 6 months and 1 year (inclusive)	1,102,103	704,478
– over 1 year	1,119,103	349,051
Total	3,295,475	1,885,186
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.84%	0.75%
– between 6 months and 1 year (inclusive)	0.85%	0.63%
– over 1 year	0.87%	0.31%
Total	2.56%	1.69%

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set forth below:

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“A Share(s)”	ordinary share(s) to be issued by the Bank pursuant to the A Share Offering and subscribed for in RMB
“A Share Offering”	the Bank’s initial public offering of not more than 600,000,000 A Shares, which will be listed on the Shenzhen Stock Exchange
“Bank”, “Bank of Zhengzhou” or “We”	Bank of Zhengzhou Co., Ltd. (鄭州銀行股份有限公司)*, a joint stock company incorporated in the PRC with limited liability on November 16, 1996 in accordance with PRC law, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBRC”	China Banking Regulatory Commission
“CBRC Henan Office”	China Banking Regulatory Commission Henan Office
“CIRC”	China Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Bank
“Supervisor(s)”	the supervisor(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi

DEFINITIONS (Continued)

“H Share(s)”	overseas-listed shares in the share capital of our Bank, with a nominal value of RMB1.00 each, which are listed and traded on the Main Board of the Hong Kong Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jiuding Financial Leasing Company”	Henan Jiuding Financial Leasing Co., Ltd (河南九鼎金融租賃股份有限公司)
“Latest Practicable Date”	March 9, 2018, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained in this annual report
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Offshore Preference Shares”	59,550,000 shares of non-cumulative perpetual offshore preference shares with a nominal value of RMB100 each issued by the Bank and listed on the Hong Kong Stock Exchange
“PBoC” or “Central Bank”	the People’s Bank of China
“PRC” or “China”	the People’s Republic of China, and for the purpose of this annual report only, excluding Hong Kong, Macau and Taiwan
“Reporting Period”	the year ended December 31, 2017 for the period from January 1, 2017 to December 31, 2017

DEFINITIONS (Continued)

“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Shareholder(s)”	the shareholder(s) of the Bank
“Shares”	the Domestic Shares and the H Shares

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

