

CZBANK  浙商银行

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

Stock Code: 2016

2016 ANNUAL REPORT



IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company confirm that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.

The 8th meeting of the fourth session of the Board of the Company, held on March 10, 2017, approved the Annual Report of China Zheshang Bank Co., Ltd. for 2016. The Company has 17 Directors, among which 15 Directors attended the meeting in person, Mr. Shen Renkang had authorized Mr. Liu Xiaochun to attend and preside over this meeting on his behalf and Mr. Xu Renyan had authorized Ms. Zhang Luyun to attend this meeting on his behalf, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. 12 Supervisors of the Company attended the meeting.

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers (both being auditors of the Company) have audited the 2016 annual financial report of the Company prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, and have issued standard unqualified audited reports, respectively.

Unless otherwise illustrated in this report, the currency for any amounts herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

This report is prepared in Chinese and English, respectively, and the Chinese version shall prevail if any ambiguities arise from the understanding of the Chinese and English texts.

The Board of the Company has proposed to declare a cash dividend of RMB1.70 per 10 shares (tax inclusive) for 2016, payable in RMB to holders of Domestic Shares and in HK dollars to holders of H Shares. The above proposal on dividend distribution is subject to consideration and approval at the 2016 annual general meeting of the Company.

Shen Renkang (Chairman of the Bank), Liu Xiaochun (President of the Bank), Liu Long (Chief Financial Officer of the Bank) and Jing Feng (景峰) (Director of the Financial Department) confirm that the financial report in the annual report is true, accurate and complete.

SIGNIFICANT RISK WARNING

Please refer to the section headed "Management Discussion and Analysis – Risk Management" of this report for information about major risks faced and measures to be taken by the Company.

The forward-looking statements about matters like future plans of the Company in this report do not constitute substantive commitments to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and commitments.

China Zheshang Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.

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Definitions

“Company”, “Bank”, “our Bank”, “China Zheshang Bank” or “CZBank”:	China Zheshang Bank Co., Ltd.
“Articles of Association”:	the articles of association of China Zheshang Bank Co., Ltd.
“Shareholder(s)”:	the shareholder(s) of the Company
“Board” or “Board of Directors”:	the board of directors of the Company
“Board of Supervisors”:	the board of supervisors of the Company
“Director(s)”:	the director(s) of the Company
“Supervisor(s)”:	the supervisor(s) of the Company
“CBRC”:	China Banking Regulatory Commission
“CSRC”:	China Securities Regulatory Commission
“Hong Kong Stock Exchange” or “SEHK”:	The Stock Exchange of Hong Kong Limited
“Company Law”:	the Company Law of the People’s Republic of China
“Commercial Banking Law”:	The Commercial Banking Law of the People’s Republic of China
“SFO”:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Hong Kong Listing Rules”:	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Model Code”:	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules
“Domestic Shares”:	ordinary shares issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in RMB
“H Shares”:	overseas-listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars. Such shares of the Company are listed and traded on the Hong Kong Stock Exchange
“Share(s)”:	Shares of the Company, including Domestic Shares and H Shares
“RMB” or “Renminbi”:	Renminbi, the lawful currency of the PRC
“HKD” or “HK\$” or “Hong Kong dollars” or “HK dollars”:	Hong Kong dollars, the lawful currency of Hong Kong
“Third Five-Year” plan:	Development Plan for 2016 to 2020 of China Zheshang Bank Co., Ltd.

Company Profile

- 1. Company name in Chinese:** 浙商银行股份有限公司(Abbreviation in Chinese: 浙商银行)
Company name in English: CHINA ZHESHANG BANK CO., LTD.
(Abbreviation in English: CZBANK)
- 2. Legal Representative:** Shen Renkang
- 3. Registered and office address:** No. 288, Qingchun Road, Hangzhou, Zhejiang, the PRC
Postcode: 310006
E-mail: ir@czbank.com
Website: www.czbank.com
Customer service hotline: 95527
Tel for investor relations management: 86-571-88268966
Fax: 86-571-87659826
- 4. Principal place of business in Hong Kong:** 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- 5. Authorized representatives:** Xu Renyan, Liu Long
- 6. Secretary to the Board:** Liu Long
Joint company secretaries: Liu Long, Wong Yat Tung
- 7. Stock exchange where the securities are listed:** Hong Kong Stock Exchange
Stock abbreviation: CZBANK
Stock code: 2016
- 8. Share registrar:**
H Shares: Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Domestic Shares: China Securities Depository and Clearing Corporation Limited
Building A, Hengao Centre, No.17, Taipingqiao Street,
Xicheng District, Beijing

Company Profile

- 9. Legal advisers:**
As to PRC Laws: Zhejiang T&C Law Firm
As to Hong Kong Laws: Freshfields Bruckhaus Deringer
- 10. Compliance Adviser:** ABCI Capital Limited
- 11. Accounting firms engaged by the Company:**
Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP
Office address: 11/F, PricewaterhouseCoopers Center, No. 202 Hubin Road, Shanghai
Signing accountants: Zhu Yu, Ye Jun
- International auditor:** PricewaterhouseCoopers
Office address: 22/F, Prince's Building, Central, Hong Kong
- 12. Place of maintenance of annual reports:** Office of the Board of the Company
(No. 288, Qingchun Road, Hangzhou, Zhejiang, the PRC)
Website of Hong Kong Stock Exchange for publishing this annual report: www.hkexnews.hk
- 13. Other information about the Company:** Uniform social credit code: 91330000761336668H
Financial institution license serial number: B0010H133010001
Registration date: July 26, 2004

Corporate Overview

China Zheshang Bank Co., Ltd. is one of the 12 nationwide joint-stock commercial banks approved by the CBRC. Our Bank is headquartered in Hangzhou, Zhejiang. We are the only nationwide joint-stock commercial bank headquartered in Zhejiang. Our Bank was listed on the Hong Kong Stock Exchange on March 30, 2016 with the stock code of 2016. Zhejiang Commercial Bank Ltd., our predecessor, was established in Ningbo, Zhejiang in 1993 as a sino-foreign joint-venture bank. With the approval from the CBRC on June 30, 2004, Zhejiang Commercial Bank Ltd. was reorganized, renamed and relocated as the current China Zheshang Bank Co., Ltd. and officially commenced operations on August 18, 2004. As of the end of 2016, CZBANK has established 170 branch outlets in 14 provinces (municipalities) in Mainland China, effectively covering the Yangtze River Delta, the Bohai Rim, the Pearl River Delta and certain areas in Midwestern China. At the same time, CZBANK is actively promoting the establishment of its Hong Kong branch in order to speed up the pace of international layout.

Leveraging on a flexible market-oriented mechanism, a strategic geographic coverage and efficient operations management abilities, CZBANK has become a high-quality commercial bank with a solid foundation, strong profitability, rapid growth and prudent risk control since the reorganization in 2004. As of December 31, 2016, total assets amounted to RMB1,354.855 billion, increasing by 31.33% compared with that in the end of the last year. In 2016, CZBANK achieved a net profit of RMB10.153 billion, representing an increase of 44.00% on a year-on-year basis. CZBANK ranked 158th in terms of tier-one capital and ranked 117th in terms of total assets among the “Top 1000 World Banks” released by the British magazine The Banker in 2016. China Chengxin International Credit Rating Co., Ltd. granted CZBANK the highest AAA corporate credit rating in rating of financial institution.



The Company was listed on the Hong Kong Stock Exchange on March 30, 2016 and received the “Best IPO Award” in the “2016 China Financial Market Listed Companies Awards” organised by China Financial Market magazine.

Development Strategies

Overall Goal of “Two Most”: The goal is to become the most competitive nationwide joint-stock commercial bank and Zhejiang’s most important financial platform.

“The Most Competitive Nationwide Joint-stock Commercial Bank” means to be a leading joint-stock bank that provides target customers with professional service, possess distinct competitive advantages on the ability for innovation, risk control, service provision in the market and value creation, match the identity of the national joint-stock commercial bank in term of scales, as well as provide support for sustainable development of professional ability.

“Zhejiang’s Most Important Financial Platform” refers to a representative financial group in Zhejiang featured by comprehensive functions, large scale, good performance and sound reputation, and at the forefront of resources deployment, efficient service and model innovation, so as to become the strategic partner of all levels of governments, financial institutions, core enterprises and a large number of businessmen in Zhejiang.

Full-asset class operation strategy: The full-asset class operation strategy is a systematic operation strategy covering the front, middle and back office management and coordination, as well as a contingency operation system with clear orientation, flexible mechanism, diversified strategy and rich tools, which initiatively accommodates to the highly uncertain and fast-changing market environment.

At the internal business level, the Bank will break through the limitation of mainly focusing on credit assets, and make adjust the allocation of credit assets, transaction assets, inter-bank assets, investment assets and assets inside and outside the balance sheet according to the changes in market and customer demand at any time, so as to reshape the balance sheet of the Bank through asset-driven-liability mode; at the customer service level, the Bank will break the boundaries of assets, liabilities and services, as well as companies, peers, personal businesses and products, and integrate the financial activities into businesses and life of our customers to optimize their balance sheets, through which the Bank will form the competitiveness of quickly adapting to changes in the market and customer demand, thus to open up a diversified profit source and effectively balance the impacts of economic cycles and business fluctuations on our asset size and profitability, with the aim of achieving the leading growth in the industry, and ultimately reaching the overall objective of “two most”.

Strategic Positioning: The Company will innovate and cooperate, focus on customer base and business under the customer-centered concept; response flexibly to build a comprehensive, digital and horizontal organic organization; and keep abreast of the leading standards to become a medium-scale bank with the most featured competitive strengths.

The Company will adhere to innovation and cooperation and the customer-centered concept, consciously focus on aligning strategic resources in key areas and form distinctive competitive strengths in the dynamic market through the “horse racing mechanism”, thereby enhance competitiveness across the Bank.

Development Strategies

The flexible and responsive organic organization will be formed based on business models and support systems, which will promote internal business synergies and external integrated operations, achieve digital transformation linking internal and external business throughout front, middle and back office, and build a horizontal organization with streamlined structure and intensive management pattern.

Based on the industry's highest standards, China Zhesang Bank will gradually form its benchmarking system and apply it into the daily management through systematic learning, imitation and innovation, laying a foundation for building the leading featured competitive strengths.



In 2016, the Company launched the new brand image, which obtained iF Design Award.

Honors and Awards

January 2016

Trade Finance Bank of Best Features

The Trade Finance magazine

April 2016

Best Trade Finance Growth Bank

Trade Finance Committee of China Banking Association

March 2016

2015 First Prize of Financial Institutions in Supporting Zhejiang Economic and Social Development

The People's Government of Zhejiang Province

May 2016

2016 Grand Awards for the Best Bank of Investment Banking (Industry) in China District

Securities Times

March 2016

2016 Best Social Marketing Platform in Financial Sector

China Financial Certification Authority (CFCA)

May 2016

The Best Bond Underwriting Bank in China District for 2016

Securities Times

March 2016

2015 Outstanding Settlement Member Prize

Shanghai Clearing House

June 2016

2016 Best Deposit Product in China

The Asian Banker magazine

March 2016

2015 Best Member in the Interbank Foreign Exchange Market

China Foreign Exchange Trade System

June 2016

2015 Best CSR Financial Institution in the China Banking Industry

China Banking Association

April 2016

2015 Most Potential Award for UnionPay Card Business

China UnionPay

June 2016

Ranking 158th (in Terms of Tier 1 Capital) and 117th (in Terms of Total Assets) among the "Top 1000 World Banks"

The Banker (UK)

Honors and Awards

June 2016	Brand Building Gold Award <hr/> TopDigital	July 2016	Best Wealth Management Brand in China <hr/> Securities Times
July 2016	Innovative Mobile Banking <hr/> 2016 China's Banking Industry Development Forum	July 2016	2016 Best Innovation Award for Financial Industry in China <hr/> International Data Corporation (IDC)
July 2016	Best Return Award and Best Risk Control Award of Wealth Management Institutions of the China Banking Industry <hr/> China Banking Association	September 2016	2016 Most Popular Bank and Best Risk Management Bank <hr/> The Chinese Banker magazine
July 2016	Best Open Bank Financial Products in China <hr/> Securities Times	October 2016	Ranking 3rd in China for 2016 Asia's Best G3 Bonds Investment Institutions <hr/> The Asset magazine
July 2016	2016 Best Bank Wealth Management Brand <hr/> 21st Century Business Herald	November 2016	2016 Best Integrated Marketing Gold Award <hr/> The Awarding Ceremony of the Golden Bee Award
July 2016	2016 Best Industry Funds Design Award <hr/> 21st Century Business Herald	November 2016	Top Service Performance Award and Excellence in Innovation Award <hr/> China Banking Association

Honors and Awards

November 2016

Top Ten Best Brand-building Case of China and Best Advertisement Award

Finals and Awarding Ceremony for the 12th China's Best Brand-building Case (Golden Elephant Award)

November 2016

Financial Products of Best Features

Sina Finance, Tsinghua University School of Economics and Management and Internet Finance Institute

November 2016

Integration and Innovation Award for E-Commerce and Supply Chain

Chinese E-Commerce Innovation Promotion Alliance

December 2016

Best Bank Providing Corporate Liquidity Services and Best Treasury Solution Case

Treasury China

December 2016

Award for Internet Finance Innovation 2016 and Award for Mobile Innovative Application 2016

China Financial Certification Authority (CFCA)

December 2016

Best Retail Innovation Bank for the Year

Financial News and the Institute of Finance and Banking, Chinese Academy of Social Sciences

December 2016

2016 Significant Contribution Award for Product Innovation in Financial Industry

TopDigital

December 2016

Best Trade Finance Products Innovation Bank

The Trade Finance magazine

December 2016

2016 Customer Satisfactory Award for Commercial Banks and 2016 Innovation Product Award for Commercial Banks (A Series Products of Yongjin Wallet)

The 14th Financial and Economic List for China of Hexun.com

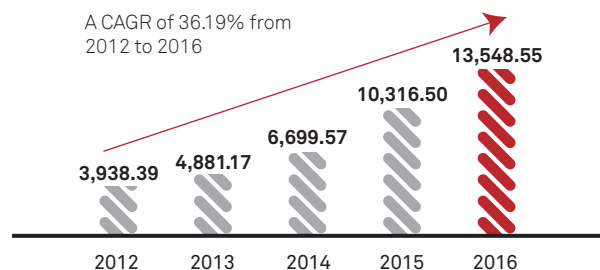
Financial Summary

(The financial data and indicators set forth in this annual report are prepared in accordance with IFRSs and presented in RMB, unless otherwise specified)

FAST-GROWING BUSINESS AND STEADILY IMPROVED OPERATING RESULTS

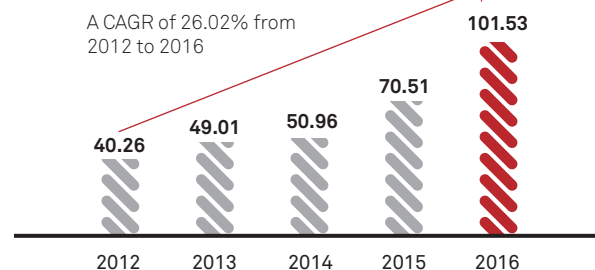
Total assets

In 100 million of RMB



Net profit

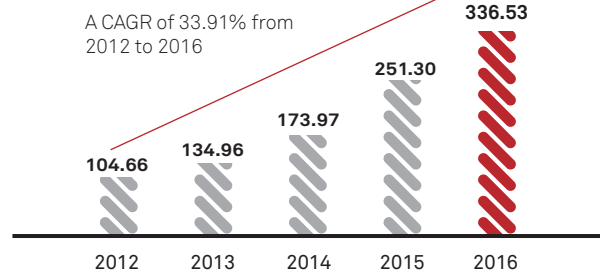
In 100 million of RMB



CONTINUOUSLY INCREASED INCOME FROM MORE DIVERSIFIED SOURCES

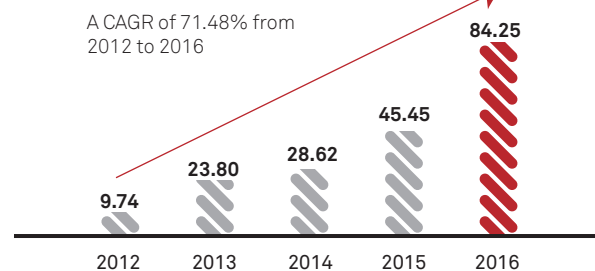
Operating income

In 100 million of RMB



Net non-interest income

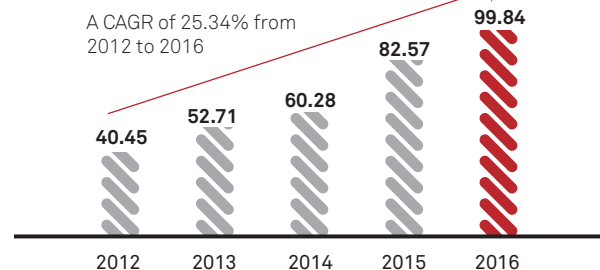
In 100 million of RMB



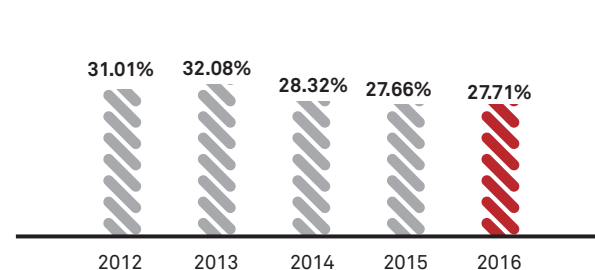
REASONABLE INCREASE IN COSTS AND BASICALLY THE SAME COST-TO-INCOME RATIO AS LAST YEAR

Operating expenses

In 100 million of RMB

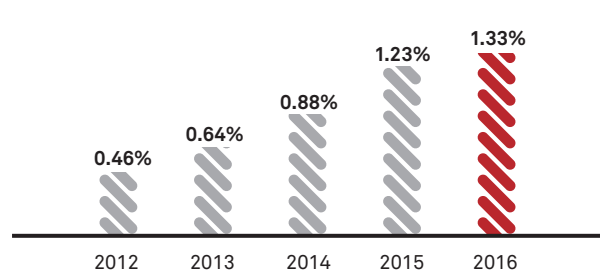


Cost-to-income ratio

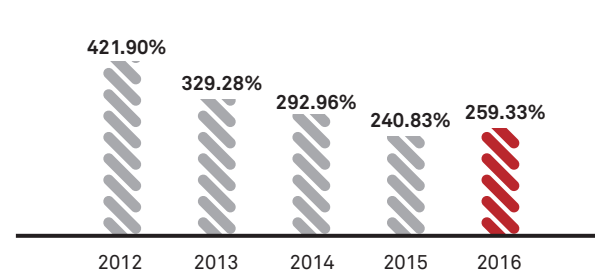


PRUDENT ALLOWANCE AND SOLID ASSET QUALITY

Non-performing loan ratio



Allowance to non-performing loans



Financial Summary

FINANCIAL DATA

	2016	2015	2014	2013	2012
Operating results (RMB'000)					
Operating income	33,653,342	25,130,385	17,396,834	13,495,504	10,466,477
Operating expenses	9,983,772	8,257,286	6,028,345	5,270,915	4,044,940
Impairment losses on assets	10,278,011	7,492,687	4,576,256	1,703,151	1,062,981
Profit before income tax	13,391,559	9,380,412	6,792,233	6,521,438	5,358,556
Net profit attributable to shareholders of the Company	10,153,148	7,050,690	5,095,503	4,901,249	4,025,695
Net cash flow from operating activities	105,839,950	207,329,259	143,328,870	(11,968)	12,629,210
Scale indicators (at the end of the reporting period, RMB'000)					
Total assets	1,354,854,519	1,031,650,386	669,957,446	488,116,994	393,839,270
Total loans and advances to customers	459,493,053	345,422,861	259,022,644	217,137,318	182,305,629
Total liabilities	1,287,379,141	981,993,322	636,807,274	460,308,497	371,129,871
Customer deposits	736,243,698	516,026,296	363,279,888	319,794,777	266,887,919
Shareholders' equity	67,475,378	49,657,064	33,150,172	27,808,497	22,709,399
Share capital	17,959,697	14,509,697	11,506,872	11,506,872	10,006,872
Per share (RMB)					
Net assets per share	3.76	3.42	2.88	2.42	2.27
Basic earnings per share	0.59	0.54	0.44	0.45	0.40
Diluted earnings per share	0.59	0.54	0.44	0.45	0.40
Profitability indicators (%)					
Return on average total assets ⁽¹⁾	0.85	0.83	0.88	1.11	1.16
Return on average equity ⁽²⁾	17.34	17.03	16.72	19.40	18.55
Net interest margin ⁽³⁾	2.07	2.31	2.62	2.63	2.91
Net interest spread ⁽⁴⁾	1.89	2.12	2.38	2.41	2.68
Net non-interest income to operating income	25.03	18.08	16.45	17.64	9.31
Cost-to-income ratio ⁽⁵⁾	27.71	27.66	28.32	32.08	31.01
Asset quality indicators (%)					
Non-performing loan ratio ⁽⁶⁾	1.33	1.23	0.88	0.64	0.46
Allowance to non-performing loans ⁽⁷⁾	259.33	240.83	292.96	329.28	421.90
Allowance to total loans ⁽⁸⁾	3.44	2.95	2.59	2.10	1.96
Capital adequacy indicators (%)					
Core tier-one capital adequacy ratio ⁽⁹⁾	9.28	9.35	8.62	9.17	N/A
Tier-one capital adequacy ratio ⁽⁹⁾	9.28	9.35	8.62	9.17	N/A
Capital adequacy ratio ⁽⁹⁾	11.79	11.04	10.60	11.53	N/A

Financial Summary

Notes:

- (1) Net profit attributable to shareholders of the Company for the year divided by average balance of total assets at the beginning and at the end of the period.
- (2) Net profit attributable to shareholders of the Company for the year divided by average balance of shareholders' equity at the beginning and at the end of the period.
- (3) Net interest income divided by average balance of interest-earning assets.
- (4) Difference between average yield on total interest-earning assets and average cost on total interest-bearing liabilities.
- (5) Operating expenses (excluding taxes and surcharges) divided by operating income.
- (6) Balance of non-performing loans divided by total loans and advances to customers.
- (7) Balance of allowance for impairment losses on loans divided by balance of non-performing loans.
- (8) Balance of allowance for impairment losses on loans divided by total loans and advances to customers.
- (9) Indicators of capital adequacy ratio were calculated by the Company in accordance with the Measures on the Administration of Capital Adequacy Ratios of Commercial Banks (《商業銀行資本充足率管理辦法》) before January 1, 2013. As of December 31, 2012, our capital adequacy ratio was 12.51% while our core capital adequacy ratio was 9.84%. Since January 1, 2013, our Company has been calculating and disclosing capital adequacy ratio in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》).

Chairman's Statement

Over the past one year, the macro-economy has showed a slow but stable and upward trend, and with the downward pressure alleviated, the structural adjustment changed positively, and the new development momentum created quickly, the reformation in operating environment of China's banking industry has been deepened continuously. As one of the "generation after the 2000s" in the banking circles, China Zheshang Bank carries the inherent innovative gene, so grasping new opportunity and accomplishing new development in the new normal economy have been the steadfast long-cherished wishes of China Zheshang Bank.

In 2016, China Zheshang Bank was successfully listed on Hong Kong Stock Exchange, realizing a historical leap, which further enhanced the corporate governance level, further improved the capital supplement mechanism, and further expanded the reputation and influence. In 2016, China Zheshang Bank still developed vigorously in such an adverse situation. Our total assets reached RMB1,354.855 billion, representing a year-on-year increase of 31.33%; our operating revenue for the whole year amounted to RMB33.653 billion, representing a year-on-year increase of 33.91%; our pre-provision profit and net profit for the whole year amounted to RMB23.670 billion and RMB10.153 billion, respectively, representing an increase of 40.28% and 44.00%, respectively; and our non-performing loan ratio was 1.33%. In 2016, the ranking of the Bank increased significantly to 117th in the "Top 1000 World Banks" released by the British magazine The Banker in terms of total assets. Under the background of the new normal macro-economy, customer structure and customer demand of the banking industry are both changing, which will bring better market opportunities for banks with strong innovation capability, quick market response and good service awareness. "A wise man changes his way as circumstances change; a knowledgeable person alter his means as times evolve". During this round of economic restructuring and optimization, China Zheshang Bank took the initiative to change as the circumstances change, grasped market opportunities from economic restructuring, and maintained the robust development momentum even in the adverse situation.

To realize development in the adverse situation requires the strategically foresighted top-level design to lead development by strategy. In 2016, the Board of Directors intensified comprehensive strategic management, played the role as a decision-making leader, compiled and released the "Third Five-Year" Plan, which clarified the overall objectives and strategic positioning of China Zheshang Bank, strategies of various business segments, and construction of the supporting and guarantee system. As a crystal of wisdom of all shareholders, directors, supervisors and employees of China Zheshang Bank, the "Third Five-Year" Plan has accumulated the historical experience, led the future development direction, and drawn a magnificent blueprint for development in the next five years.

To realize development in the adverse situation needs continuously create differentiation advantages to support development by characteristics. Liquidity service and capital market businesses have become the two edge tools for China Zheshang Bank to expand corporate business and serve real economy, which have preliminarily contributed to competitive edges; the small enterprise business has maintained conventional advantages, with indicators such as business proportion, assets quality and growth rate still prominent; the retail business has made full use of late-developing advantages to continuously explore into new market methods and approaches to promote business development, and as a result, many varieties of characteristic and key products have gained positive market recognition.

To realize development in the adverse situation also needs positively embrace the trend of the times to drive development by innovation. In 2016, China Zheshang Bank refreshed the brand image, and realized the same frequency and resonance in brand strategy and business innovation; our cutting-edge products such as Zengjinbao, pooled financing, Zhizhen Loan and Yongjin Purse have not only provided customers with conventional financial services, but more importantly brought brand-new financial experience to customers; in response to the new industry and new business condition, China Zheshang Bank has carried out business models like industry funds, asset securitization, bond financing, M&A service, etc. by actively utilizing the capital market instruments, and provided full-value and full life-cycle financial services for enterprises; series products like "Innovation and Entrepreneurship Program Loan" and "Elite Loan" as well as the Talent Bank service model have been launched specially for small and micro entrepreneurship groups and high-end talents.

"Thousands of ships sail when tides come, while tens of thousands of drums beat when waves roar". As the supply side structural reform in China will be further deepened in 2017, the new financial tides will surge accordingly. China Zheshang Bank will meet the requirements of "adhering to the spirit of Zhejiang Province, remaining steadfast in our work, standing at the forefront, and catching the tides", consolidate the scale, endeavor to strive for the "two most" overall objectives by means of hard skills and lean management, and continue creating values for our investors and the society.

沈仁康

Mr. Shen Renkang
Chairman

“2016 Top 10 Financiers”

selected by the Banker magazine

President's Statement

2016 is the second full year for China Zheshang Bank to establish the “two most” overall objectives and to implement the full-asset class operation strategy. In this year, China Zheshang Bank took the initiative to cope with the general situation and accelerate innovation and transformation, smoothly realized H shares listing and brand refreshing, and achieved growth despite in the severely adverse situation of new normal economy and finance.

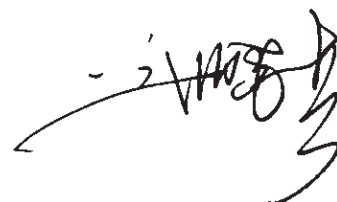
In 2016, we devoted our efforts to improving financial services and realizing win-win with real economy. The Company focused on the corporate liquidity needs, continued to promote iterative upgrade of pooled financing services, and formed into a complete set of liquidity service solutions, which had effectively helped enterprises reduce fund occupation and lower financing cost; by focusing on corporate multi-channel financing demands, the Company innovatively used new products like asset-backed securities and adopted new business models like “Investment Advisory Loan” to provide full-cycle and full-value financing services for enterprises; by focusing on financing difficulties of small and micro enterprises, the Company continued to develop flexible and diversified loan products suitable for different types of small and micro enterprises, and further reinforced the benchmarking position of small and micro business; by focusing on financial service demands of the public, the Company had explored into the development road of retail banking with the characteristics of China Zheshang Bank, which contributed to a significant increase in the number of personal customers and total financial amount, and made the issuance of credit cards break through 1 million at the fastest speed in the whole industry. China Zheshang Bank had successfully built up series brands and characteristics that serve real economy.

In 2016, we devoted our efforts to adopting comprehensive risk management and safeguarding the prudent and solid operation. In line with the new requirements imposed by new situation, new business and new products on risk management, the Company comprehensively reformed the risk management system and mechanism, continually optimized risk management framework, preliminarily established the comprehensive risk management system covering credit risk, market risk, liquidity risk, operational risk and reputational risk, and improved in an all-round manner the ability to control various risks. The Company insisted on compliance operation according to law, intensified internal management and case investigation prevention, effectively reinforced the defense line for safe, prudent and sound operation, and maintained a favorable situation free of major cases, material errors or serious liability accidents throughout the year.

In 2016, we devoted our efforts to performing our social responsibilities and sharing our development fruits with the public. The Company widely publicized financial literacy, organized the large-scale thematic activity such as “Broadcasting Financial Literacy to Thousands of Families” for many times, and popularized financial literacy for anti-money laundering, anti-fraud and anti-counterfeiting; standardized the charge policy, and definitely cancelled unreasonable charge items to alleviate burdens on enterprises with practical actions; we carefully provided financial services for G20 Hangzhou Summit, which were widely praised by parties concerned; the Company innovated upon public welfare modes, and had sponsored the Rainbow Plan – a large-scale public welfare student support action for five years in succession, which raised donations of approximately RMB12.5 million from all sectors of society, assisted over 10,000 impoverished pupils, and organized 71 public welfare and charitable activities of different varieties throughout the year, with more than 50,000 benefited persons. Our Bank was therefore honored as the “Most Socially Responsible Financial Institution”.

Achievements of China Zheshang Bank had also earned the market recognition. In 2016, our Bank received numerous honors such as “Best Bank Providing Corporate Liquidity Services”, “Best Bank for Financial Solutions”, “Best Innovative Bank for Retail Business”, “Best Deposit Product Award”, “Best Bank of Investment Banking (Industry)”, “Best Wealth Management Brand”, etc., and the new LOGO of our brand was also conferred the World iF Deign Award.

Boundless is the ocean where we sail with the wind. The year of 2017 is an important year for China Zheshang Bank to accelerate transformation and development. We will adhere to the overall keynote of seeking improvement in stability, continue to standardize on the basis of summarization, continue to improve on the basis of standardization, and continue to innovate on the basis of improvement, so as to further deepen the full-asset class operation strategy, enhance the quality and efficiency of serving the real economy, continuously forge ahead towards the vast ocean of “two most” overall objectives, and endeavor to make more splendid achievements.



Mr. Liu Xiaochun
President



Honored as

“Annual Pioneer Banker”

by 2016 China's Banking Industry Development Forum

Management Discussion and Analysis

(I) ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENT

In 2016, the global economy recovered slightly: the USA economy grew relatively steadily; the European achieved sluggish recovery; the economy in Japan remained in the doldrums; and the emerging markets saw obvious growth differentiation. The stock markets in the world witnessed relatively large fluctuations, the commodity markets fully warmed up, and various factors, such as Brexit referendum, Italian referendum, American Presidential Election and US interest rate rise, contributed to the shock of foreign exchange market. US dollar maintained strong, and the US dollar index broke through 100 at the end of 2016, resulting in the fact that the risk aversion led to the yen's appreciation, at the same time, the Euro currency hesitated at a lower level, and the capital outflows from emerging markets accelerated, putting the currencies under pressure again.

The Chinese economy remained smooth generally with the continuous optimization of the industrial structure and constant economic transformation. In 2016, the GDP reached RMB74.41 trillion, with year-on-year growth of 6.70%, and the proportions of the primary, secondary and tertiary industry in GDP were 8.56%, 39.81% and 51.63% respectively. With the unceasing deepening and implementation of the State strategy driven by the structural reform of Supply-side Reform, etc., the measure of “reducing industrial capacity, destocking, deleveraging, lowering costs and filling the short board” achieved initial success: the traditional industry displayed a new face following the transformation and upgrade, and the new industry and the new types of business conceived the new energy of motion.

The People's Bank of China continued its sound monetary policy, further deepened the financial reform, made efforts to enhance the transmit mechanism of monetary policy, and increased the financial resources allocation efficiency, in order to positively create a suitable monetary finance environment for the steady growth and the structural reform of Supply-side Reform. It made comprehensive use of open market operations; improved the window guidance, supported the adjustment, transformation and upgrade of economic structure and enhanced support to key fields and weak links. Meanwhile, it organized prudential assessment about the macroeconomy to guide the behavior of financial institutions in multiple dimensions; continued to promote the interest rate marketization and the reform of exchange rate formation mechanism. RMB's join in the International Monetary Fund's SDR currency basket was effective formally, and the levels of flexibility, regularity, transparency and marketization were improved significantly.

Management Discussion and Analysis

The sound monetary policy achieved a better effect: the liquidity in banking system was reasonable and sufficient; the scales of monetary credit and social financing grew smoothly and moderately; the interest rate level operated steadily; and the elasticity of RMB's exchange rate was enhanced. At the end of 2016, the supply of the broad money M2 balance increased by year-on-year growth of 11.3%, and the social financing scale's stock rose by 12.8% on a year-on-year basis. The central parity rate of USD1 against RMB in the interbank foreign exchange market was RMB6.937, representing a depreciation by 6.83% compared to that at the beginning of the year.

In 2016, the scale of assets and liabilities in China's banking industry grew stably, and the credit asset quality of commercial banks was generally stable. As of the end of 2016, total assets of financial institutes in local and foreign currencies of the banking industry in China was RMB232.25 trillion, increased by 15.8% on year-on-year basis; the balance of loan in local and foreign currencies was RMB112.06 trillion, increased by 12.79% on year-on-year basis; the balance of deposits in local and foreign currencies was RMB155.52 trillion, increased by 11.27% on year-on-year basis; the non-performing loan ratio was 1.91%, and the non-performing loan ratio of commercial banks was 1.74%.

Looking forward into 2017, China's economy will continue to grow under the new normal of speed shifting, mode transformation and power switching, seeking progress while keeping performance stable, and the good development momentum which focuses on the advance of the supply-side structural reform is expected to continue. On the one hand, the unbalanced economic structure is still the main contradiction of China's economy, the supply-side structural reform will be unceasingly deepened, the growth motion and the market's vitality will be sustainably stimulated, and the quality and efficiency of the economic growth will be effectively improved. On the other hand, prevention and control of financial risk will be put in the top priority. In pushing forward the supply-side structural reform, the strict risk prevention and control of asset bubbles in key areas including the real estate is particularly important. And, China will promote the financial regulatory system reform to firmly hold the bottom line of no systemic financial risks.

Management Discussion and Analysis

(II) SUMMARY OF OVERALL OPERATION

In 2016, faced with the complicated external environment, the Company maintained positive overall development trend by deeply implementing the full-asset class operation strategy.

The asset size grew rapidly and business structure was further optimized.

As of the end of the reporting period, the Company's total assets amounted to RMB1,354.855 billion, representing an increase of RMB323.204 billion or 31.33% as compared with that at the end of last year, including total loans and advances to customers of RMB459.493 billion, representing an increase of RMB114.070 billion or 33.02% as compared with that at the end of last year; total liabilities amounted to RMB1,287.379 billion, representing an increase of RMB305.386 billion or 31.10% as compared with that at the end of last year, including the customer deposits of RMB736.244 billion, representing an increase of RMB220.217 billion or 42.68% as compared with that at the end of last year.

The efficiency grew to a record high and the profitability was further improved.

On one hand, the operating efficiency shored up in adverse situation. Under the macro environment where the overall profitability declined in the banking industry, the Company's efficiency rose in adverse situation, achieving the operating income of RMB33.653 billion in the reporting period, representing an increase of 33.91% as compared with that at the end of last year; in the circumstance of making various prudent provisions, the net profit reached a record high of RMB10.153 billion, representing an increase of 44.00% as compared with that at the end of last year. On the other hand, the proportion of net non-interest income grew significantly. Under the situation of continued narrowing of interest rate differential, the Company's net non-interest income for the year amounted to RMB8.425 billion, representing an increase of 85.38% as compared with that at the end of last year; the percentage of net non-interest income to operating income was 25.03%, representing an increase of 6.95 percentage points as compared with that at the end of last year, and the revenue structure was optimized.

The risk control stabilized to an excellent situation and the stable and healthy operation was further enhanced.

Firstly, the quality of assets was relatively fine. As of the end of the reporting period, the Company's balance of non-performing loans was RMB6.102 billion with a non-performing loan ratio of 1.33%, and the quality of assets maintained relatively fine among main commercial banks. The allowance to non-performing loans was 259.33%, representing an increase of 18.50 percentage points as compared with that at the end of last year; the allowance to total loan ratio was 3.44%, representing an increase of 0.49 percentage points as compared with that at the end of last year. Secondly, the capital adequacy ratio maintained at a stable level. As of the end of the reporting period, the Company's capital adequacy ratio was 11.79%, representing an increase of 0.75 percentage points as compared with that at the end of last year; tier-one capital adequacy ratio was 9.28%, and core tier-one capital adequacy ratio was 9.28%.

Management Discussion and Analysis

(III) ANALYSIS OF FINANCIAL STATEMENTS

1. Analysis of income statement

In 2016, although facing the business environment with continuous economic slowdown, acceleration of financial reform and interest liberalization, changes in the financial ecosystem and increasing competitiveness, the Company adapted to changes and actively took advantage of new opportunities arising therefrom by adhering to the general goal of “two most” to propel the consistent implementation of our “full-asset class operation strategy”, achieving sound results of operation in many respects including scale, efficiency and quality. In 2016, the Company achieved a net profit of RMB10.153 billion, increased by RMB3.102 billion or 44.00% compared with last year; return on average total assets was 0.85% and the return on average equity was 17.34%, both showing an increase compared with the year before. Operating income was RMB33.653 billion, increased by 33.91%, including, among others, net interest income of RMB25.229 billion, increased by 22.55%; non-interest income of RMB8.425 billion, increased by 85.38%, accounting for 25.03% of the operating income, increased by 6.95 percentage points. Operating expense was RMB9.984 billion, increased by 20.91%; cost-to-income ratio was 27.71%, basically the same as last year. Provision for impairment loss of assets was RMB10.278 billion, increased by 37.17%. The income tax expense was RMB3.238 billion, increased by RMB909 million or 39.00%.

Changes of the main items in the income statement

In thousands of RMB, except percentages

Item	2016	2015	Increase/ decrease	Growth rate (%)
Net interest income	25,228,553	20,585,751	4,642,802	22.55
Net non-interest income	8,424,789	4,544,634	3,880,155	85.38
Operating income	33,653,342	25,130,385	8,522,957	33.91
Less: operating expenses	9,983,772	8,257,286	1,726,486	20.91
Less: Impairment losses on assets	10,278,011	7,492,687	2,785,324	37.17
Profit before income tax	13,391,559	9,380,412	4,011,147	42.76
Less: Income tax expense	3,238,411	2,329,722	908,689	39.00
Net profit	10,153,148	7,050,690	3,102,458	44.00
Net profit attributable to the shareholders of the Company	10,153,148	7,050,690	3,102,458	44.00

Management Discussion and Analysis

(1) Net interest income

In 2016, net interest income was RMB25.229 billion, increased by RMB4.643 billion or 22.55%, accounting for 74.97% of operating income. Interest income was RMB54.676 billion, increased by RMB7.247 billion or 15.28%; and interest expense was RMB29.448 billion, increased by RMB2.604 billion or 9.70%. Net interest spread and net interest margin were 1.89% and 2.07%, respectively, decreased by 23 bps and 24 bps over last year, respectively.

Average yields on interest-earning assets and average costs of interest-bearing liabilities
In thousands of RMB, except percentages

Item	2016			2015		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances						
to customers	435,733,844	21,262,865	4.88	320,957,915	18,905,466	5.89
Financial investments ⁽¹⁾	599,951,803	28,944,267	4.82	391,299,771	22,571,678	5.77
Due from banks and other						
financial institutions ⁽²⁾	69,312,561	2,282,799	3.29	91,588,115	4,388,954	4.79
Balances with central bank ⁽³⁾	99,931,856	1,522,205	1.52	78,166,144	1,211,276	1.55
Financial assets at fair value						
through profit or loss	16,569,994	664,322	4.01	7,437,349	352,436	4.74
Total interest-earning assets	1,221,500,058	54,676,458	4.48	889,449,294	47,429,810	5.33

Management Discussion and Analysis

Item	2016			2015		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Interest-bearing liabilities						
Customer deposits	632,203,380	13,124,884	2.08	448,531,209	11,219,273	2.50
Due to banks and other financial institutions ⁽⁴⁾	403,446,438	12,816,233	3.18	314,866,410	12,402,691	3.94
Debt securities issued ⁽⁵⁾	100,915,723	3,506,788	3.47	72,397,268	3,222,095	4.45
Total interest-bearing liabilities	1,136,565,541	29,447,905	2.59	835,794,887	26,844,059	3.21
Net interest income		25,228,553			20,585,751	
Net interest spread (%)			1.89			2.12
Net interest margin (%)			2.07			2.31

Notes:

- (1) Financial investments include available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.
- (2) Due from banks and other financial institutions include financial assets purchased under resale agreements.
- (3) Balances with the central bank include mandatory reserve deposits and surplus reserve deposits.
- (4) Due to banks and other financial institutions include financial assets sold under repurchase agreements.
- (5) Debt securities issued includes issued interbank certificates of deposits, financial bond and subordinated bond.

Management Discussion and Analysis

Analysis of changes in interest income and interest expense

In thousands of RMB

Item	Comparison between 2016 and 2015		Net increase (decrease) ⁽³⁾
	Factors for increase (decrease)		
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	6,760,676	(4,403,277)	2,357,399
Financial investments	12,035,853	(5,663,264)	6,372,589
Due from banks and other financial institutions	(1,067,457)	(1,038,698)	(2,106,155)
Balances with central bank	337,285	(26,356)	310,929
Financial assets at fair value through profit or loss	432,772	(120,886)	311,886
Changes in interest income	18,499,129	(11,252,481)	7,246,648
Interest-bearing liabilities			
Customer deposits	4,594,258	(2,688,647)	1,905,611
Due to banks and other financial institutions	3,489,196	(3,075,654)	413,542
Debt securities issued	1,269,235	(984,542)	284,693
Changes in interest expense	9,352,689	(6,748,843)	2,603,846
Changes in net interest income	9,146,440	(4,503,638)	4,642,802

Notes:

- (1) Change in volume represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield or average cost for the previous year.
- (2) Change in interest rate represents the average yield or average cost for the year minus the average yield or average cost for the previous year, multiplied by the average balance for the year.
- (3) Net increase or decrease represents interest income or expense for the year minus interest income or expense for the previous year.

Management Discussion and Analysis

(2) Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB21.263 billion, increased by RMB2.357 billion or 12.47% over last year, mainly due to an increase of RMB114.776 billion in average balance of loans and advances to customers, which was partially offset by the decline in the average loan yield. The decline in the average loan yield was mainly due to multiple interest rate cuts by the People's Bank of China in 2015.

Interest income from loans and advances to customers

In thousands of RMB, except percentages

Item	2016			2015		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	362,058,091	16,714,071	4.62	264,184,773	14,999,804	5.68
Personal loans and advances	73,675,753	4,548,794	6.17	56,773,142	3,905,662	6.88
Total loans and advances to customers	435,733,844	21,262,865	4.88	320,957,915	18,905,466	5.89

Note:

(1) including discounted bills.

Interest income from financial investments

Interest income from financial investments was RMB28.944 billion, increased by RMB6.373 billion or 28.23% over last year, mainly because we capitalized on the market interest rate trend change, optimized our assets structure in accordance with our demand for business development and moderately increased our interbank investments, mainly investments in asset management plans and trust plans.

Management Discussion and Analysis

Interest income from financial investments

In thousands RMB, except percentages

Item	2016			2015		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Available-for-sale financial assets	59,699,545	2,065,527	3.46	41,036,597	1,652,363	4.03
Held-to-maturity investments	36,594,955	1,374,285	3.76	23,241,524	952,456	4.10
Debt instruments classified as receivables	503,657,303	25,504,455	5.06	327,021,650	19,966,859	6.11
Total	599,951,803	28,944,267	4.82	391,299,771	22,571,678	5.77

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

Interest income from due from banks and other financial institutions banks and other financial institutions was RMB2.283 billion, representing a decrease of RMB2.106 billion or 47.99% compared to last year, primarily because the average balance of due from banks and other financial institutions decreased. Meanwhile, the People's Bank of China lowered the benchmark interest rates several times in 2015, which led to a decrease in the return of amounts due from banks and other financial institutions.

Interest income from balances with central bank

Interest income from balances with central bank amounted to RMB1.522 billion, representing an increase of RMB311 million or 25.67% as compared to last year, primarily due to the increase in customer deposits which led to an increase in the mandatory reserve deposits.

Interest income from financial assets at fair value through profit or loss

Interest income from financial assets at fair value through profit or loss amounted to RMB664 million, representing an increase of RMB312 million or 88.49% as compared to last year, primarily due to the increased average balance of financial assets at fair value through profit or loss, partially offset by the decreased average yield.

Management Discussion and Analysis

(3) Interest expense

Interest expense on deposits

Interest expense on deposits amounted to RMB13.125 billion, representing an increase of RMB1.906 billion or 16.99% as compared to last year, accounting for 44.57% of the total interest expenses. Such increase was primarily due to the increase in the average balance of deposits, partially offset by the decreased average cost.

Interest expense on deposits

In thousands of RMB, except percentages

Item	2016			2015		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits and other deposits⁽¹⁾						
Time	409,405,695	11,279,491	2.76	296,735,698	9,786,558	3.30
Demand	199,382,856	1,383,500	0.69	131,626,059	903,280	0.69
Subtotal	608,788,551	12,662,991	2.08	428,361,757	10,689,838	2.50
Personal deposits						
Time	18,305,715	443,747	2.42	16,338,552	514,594	3.15
Demand	5,109,114	18,146	0.36	3,830,900	14,841	0.39
Subtotal	23,414,829	461,893	1.97	20,169,452	529,435	2.62
Total	632,203,380	13,124,884	2.08	448,531,209	11,219,273	2.50

Note:

- (1) Other deposits include remittance payables, temporary deposits, outward remittance and structured deposits, etc.

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB12.816 billion, representing an increase of RMB414 million or 3.33% as compared to last year, primarily due to an increase in average balance of amounts due to banks and other financial institutions, partially offset by the decreased financing interest rates.

Interest expense on debt securities issued

Interest expense on debt securities issued amounted to RMB3.507 billion, representing an increase of RMB285 million or 8.84% as compared to last year, primarily due to an increase in the tier 2 capital bonds and financial bonds in 2016, partially offset by the decreased financing interest rates.

Management Discussion and Analysis

(4) Net non-interest income

Net non-interest income in 2016 amounted to RMB8.425 billion, representing an increase of RMB3.880 billion or 85.38% as compared to last year. Specifically, the net fee and commission income was RMB7.475 billion, representing an increase of 82.28%, while other net non-interest income was RMB950 million, representing an increase of 114.05%.

Net fee and commission income

In thousands of RMB, except percentages

Item	2016	2015	Amount of increase or decrease	Growth rate (%)
Agency service	442,682	859,404	(416,722)	(48.49)
Wealth management business	5,416,548	2,131,103	3,285,445	154.17
Custodian and other fiduciary service	192,334	158,955	33,379	21.00
Credit commitment	446,021	483,520	(37,499)	(7.76)
Underwriting service	597,127	334,565	262,562	78.48
Settlement business	158,351	84,386	73,965	87.65
Others	413,042	141,880	271,162	191.12
Fee and commission income	7,666,105	4,193,813	3,472,292	82.80
Less: Fee and commission expense	191,018	92,857	98,161	105.71
Net fee and commission income	7,475,087	4,100,956	3,374,131	82.28

Fee income from agency service was RMB443 million, representing a decrease of RMB417 million as compared to last year, primarily because the Company proactively adjusted our business mix according to the changing market environment.

Fee income from wealth management business was RMB5.417 billion, representing an increase of RMB3.285 billion as compared to last year, primarily due to the increased scale of wealth management assets.

Fee income from custodian and other fiduciary service was RMB192 million, representing an increase of RMB33 million as compared to last year, primarily due to the increase scale of the custodian business.

Income from credit commitment business was RMB446 million, representing a decrease of RMB37 million as compared to last year, primarily because we proactively optimized our business structure.

Management Discussion and Analysis

Fee income from underwriting service was RMB597 million, representing an increase of RMB263 million as compared to last year, primarily due to the increased scale of the bond underwriting business.

Fee income from settlement business was RMB158 million, representing an increase of RMB74 million as compared to last year, primarily due to the growth of our settlement and clearing business.

Other net non-interest income

In thousands of RMB, except percentages

Item	2016	2015	Amount of increase or decrease	Growth rate (%)
Net trading gains	10,134	2,073	8,061	388.86
Net gains on financial investments	725,339	329,792	395,547	119.94
Other operating income	214,229	111,813	102,416	91.60
Total	949,702	443,678	506,024	114.05

Other net non-interest income was RMB950 million, representing an increase of RMB506 million or 114.05% as compared to last year, primarily due to the increased net gains on financial investments.

Management Discussion and Analysis

(5) Operating expenses

Operating expenses

In thousands of RMB, except percentages

Item	2016	2015	Amount of increase or decrease	Growth rate (%)
Staff costs	5,962,976	4,304,025	1,658,951	38.54
General and administrative expenses	2,646,701	2,046,851	599,850	29.31
Tax and surcharges	658,446	1,305,448	(647,002)	(49.56)
Rental expenses	429,611	342,303	87,308	25.51
Depreciation and amortization	236,275	208,126	28,149	13.52
Others	49,763	50,533	(770)	(1.52)
Total	9,983,772	8,257,286	1,726,486	20.91

Operating expenses amounted to RMB9.984 billion, representing an increase of 20.91%, primarily due to our business expansion and the increased number of outlets and employees.

(6) Impairment losses on assets

Impairment losses on assets

In thousands of RMB, except percentages

Item	2016	2015	Amount of increase or decrease	Growth rate (%)
Loans and advances to customers	8,418,854	6,157,343	2,261,511	36.73
Debt instruments classified as receivables	1,856,673	1,320,527	536,146	40.60
Others	2,484	14,817	(12,333)	(83.24)
Total	10,278,011	7,492,687	2,785,324	37.17

The impairment losses on assets were RMB10.278 billion, representing an increase of 37.17%, primarily because (1) due to the increase of our non-performing loans along with the increase in our loan balances, combined with a number of factors including the slowdown of domestic economic growth speed, in 2016, we prudently increased the provision for impairment losses on loans to further enhance our risk resistance capability; (2) we prudently increased the provision for impairment losses on debt instruments classified as receivables.

Management Discussion and Analysis

(7) Income tax expenses

The income tax expenses were RMB3.238 billion, representing a year-on-year increase of RMB909 million or 39.00%, and the effective tax rate was 24.18%. For the reconciliation statement of the income tax expenses calculated at statutory tax rate and the actual income tax expenses, please see “Notes to Financial Statements – 13 Income Tax Expense”.

(8) Segment information

Business segments

The major business segments of the Company were corporate banking, retail banking and treasury business.

Segment operating results by business line

In thousands of RMB, except percentages

Item	January to December 2016		January to December 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate banking	17,911,109	53.22	13,065,949	51.99
Retail banking	3,132,904	9.31	2,233,513	8.89
Treasury business	12,532,277	37.24	9,784,404	38.93
Others	77,052	0.23	46,519	0.19
Total	33,653,342	100.00	25,130,385	100.00

Geographic segments

The Company had four geographic segments, namely, Eastern China, Northern China, Southern China, Midwestern China.

Segment operating results by geographic region

In thousands of RMB, except percentages

Item	January to December 2016		January to December 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Eastern China	21,250,788	63.15	17,040,917	67.81
Northern China	5,518,816	16.40	4,289,981	17.07
Southern China	1,783,790	5.30	1,209,099	4.81
Midwestern China	5,099,948	15.15	2,590,388	10.31
Total	33,653,342	100.00	25,130,385	100.00

Management Discussion and Analysis

2. Balance Sheet Analysis

In 2016, under the “new normal” economy, the Company actively adapted to rapidly changing market needs, expanded our capital, enhanced our strengths, deeply promoted our full-asset class operation strategy, actively adjusted our business structure, increased the allocation for strategic customers and strategic assets, and optimized and adjusted the regional development layout. Our operating capacity was further improved, structure of assets and liabilities was continuously optimized, liquidity and market risk management were further strengthened, and resource allocation efficiency of assets and liabilities was steadily improved.

(1) Assets

As of the end of the reporting period, total assets of the Company amounted to RMB1,354.855 billion, representing an increase of RMB323.204 billion or 31.33% as compared with that at the end of last year. In terms of the structure, net loans and advances accounted for 32.75%, investments accounted for 48.95%, and cash and balances with central bank accounted for 9.17%.

Assets utilization

In thousands of RMB, except percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances				
to customers	459,493,053	—	345,422,861	—
Less: allowance for				
impairment losses on loans	(15,824,396)	—	(10,193,921)	—
Net loans and advances	443,668,657	32.75	335,228,940	32.49
Investments ⁽¹⁾	663,167,801	48.95	520,848,463	50.49
Cash and balances with				
central bank	124,269,106	9.17	87,649,741	8.50
Precious metal	3,952,824	0.29	1,848	0.00
Due from banks and				
other financial institutions	98,442,129	7.26	76,607,447	7.42
Others	21,354,002	1.58	11,313,947	1.10
Total assets	1,354,854,519	100.00	1,031,650,386	100.00

Note:

- (1) It includes financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments, and debt instruments classified as receivables.

Management Discussion and Analysis

Loans and advances to customers

In 2016, the Company, according to changes in the macroeconomic environment and financial regulatory requirements and by combining the optimization of credit loan increment and stock structure adjustment, supported the development of real economy, continued to deepen financial services to small and micro enterprises, increased efforts on innovation, and attached importance to credit structure adjustment and risk prevention and control simultaneously. As a result, loans increased steadily and evenly, with a reasonable investment direction and structure. As of the end of the reporting period, the total loans and advances to customers of the Company amounted to RMB459.493 billion, representing an increase of RMB114.070 billion or 33.02% as compared with that at the end of last year.

Loan structure by business type

In thousands of RMB, except percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans	353,200,030	76.87	242,484,549	70.20
Discounted bills	18,024,442	3.92	39,827,199	11.53
Personal loans	88,268,581	19.21	63,111,113	18.27
Total	459,493,053	100.00	345,422,861	100.00

Corporate loans

Driven by the full-asset class operation strategy in a comprehensive manner, in order to meet customers' financing needs via diversified products, the Company promoted the optimization of corporate loan structure while taking into account the adjustment in total amount and structure of its loans. As of the end of the reporting period, total corporate loans amounted to RMB353.200 billion, representing an increase of 45.66% as compared with that at the end of last year.

Discounted bills

The Company flexibly regulated and controlled its discounted bills business with low risk and low consumption of capital according to the progress of loan expansion, and took various measures including optimization of structure and acceleration of turnover to improve comprehensive returns on bill assets. As of the end of the reporting period, total discounted bills amounted to RMB18.024 billion, representing a decrease of 54.74% as compared with that at the end of last year.

Management Discussion and Analysis

Personal loans

The Company optimized its asset structure and continued to promote the steady growth of personal loans, and expanded residential mortgage loans, personal business loans and credit card loans taking into account the market demand and risk management control. As of the end of reporting period, total personal loans amounted to RMB88.269 billion, representing an increase of 39.86% as compared to that at the end of last year.

Investments

In 2016, the Company accurately seized favorable opportunities in the financial market, flexibly arranged progress and focus of investments, optimized investment portfolio and structure and, on the basis of ensuring liquidity and risk control, moderately increased investment scale, constantly improved profitability level of investment portfolios. As of the end of the reporting period, the Company's total investments amounted to RMB663.168 billion, representing an increase of RMB142.319 billion or 27.32% as compared with that at the end of last year.

Investment composition by purpose of holding

In thousands of RMB, except percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial assets at fair value through profit or loss ⁽¹⁾	23,131,819	3.49	10,795,291	2.07
Available-for-sale financial assets ⁽²⁾	61,466,941	9.27	49,117,403	9.43
Held-to-maturity investments ⁽²⁾	41,532,932	6.26	29,042,163	5.58
Debt instruments classified as receivables ⁽²⁾	537,036,109	80.98	431,893,606	82.92
Total	663,167,801	100.00	520,848,463	100.00

Notes:

(1) Please see "Note to the Financial Statements -17 Financial Assets at Fair Value Through Profit or Loss".

(2) Please see "Note to the Financial Statements -20 Financial Investment".

As of the end of the reporting period, financial assets at fair value through profit or loss of the Bank amounted to RMB23.132 billion, representing an increase of 114.28%; available-for-sale financial assets amounted to RMB61.467 billion, representing an increase of 25.14%; held-to-maturity investments amounted to RMB41.533 billion, representing an increase of 43.01%; and debt instruments classified as receivables amounted to RMB537.036 billion, representing an increase of 24.34%.

Management Discussion and Analysis

Top 10 financial bonds held by the Company

In thousands of RMB, except percentages

Bond names	face value	Annual interest rate (%)	Maturity date	Impairment allowance
2015 policy bank bond	2,550,000	3.85	January 8, 2018	—
2014 policy bank bond	2,380,000	4.22	November 20, 2024	—
2015 policy bank bond	2,280,000	4.25	April 13, 2022	—
2015 policy bank bond	2,230,000	3.86	February 5, 2022	—
2013 policy bank bond	2,000,000	4.97	October 24, 2018	—
2014 policy bank bond	1,900,000	5.02	August 21, 2024	—
2015 policy bank bond	1,690,000	3.94	April 23, 2020	—
2015 policy bank bond	1,670,000	4.18	May 4, 2022	—
2015 policy bank bond	1,660,000	4.13	April 13, 2020	—
2016 policy bank bond	1,570,000	2.96	February 18, 2021	—

(2) Liabilities

At the end of 2016, total liabilities of the Company amounted to RMB1,287.379 billion, representing an increase of RMB305.386 billion or 31.10% as compared to that at the end of last year.

Liabilities Composition

In thousands of RMB, except percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Customer deposits	736,243,698	57.19	516,026,296	52.55
Due to banks and other financial institutions	394,108,821	30.61	354,657,357	36.12
Financial liabilities at fair value through profit or loss	13,875,609	1.08	500,020	0.05
Debt securities issued	114,595,250	8.90	89,936,036	9.16
Others	28,555,763	2.22	20,873,613	2.13
Total liabilities	1,287,379,141	100.00	981,993,322	100.00

Management Discussion and Analysis

Customer deposit

The Company attached importance to deposit organization and management, actively responded to the further advancement of liberalization of interest rates, increasingly fierce competition among peers, rapid development of Internet financial services and other changes in external situations, took full advantage of the comprehensive advantages of financial services, improved the differentiated pricing mechanism for deposit interest rates, raised the debt stability, strengthened the management of financing channels, improved the diversification of financing sources and further optimized financing structures.

Structure of our customer deposits by business type

In thousands of RMB, except percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	256,737,966	34.87	179,985,599	34.88
Time	443,686,661	60.26	310,115,626	60.10
Sub-total	700,424,627	95.13	490,101,225	94.98
Individual deposits				
Demand	7,501,155	1.02	6,381,855	1.24
Time	26,046,656	3.54	15,298,848	2.96
Sub-total	33,547,811	4.56	21,680,703	4.20
Other deposits	2,271,260	0.31	4,244,368	0.82
Total	736,243,698	100.00	516,026,296	100.00

As of the end of the reporting period, balance of customer deposits amounted to RMB736.244 billion, representing an increase of RMB220.217 billion or 42.68% as compared with that at the end of last year. With respect to customer structure, corporate deposits increased by RMB210.323 billion or 42.91%; and individual deposits increased by RMB11.867 billion or 54.74%. With respect to term structures, time deposits increased by RMB144.319 billion or 44.35%; and demand deposits increased by RMB77.872 billion or 41.78%.

(3) Shareholder's equity

As of the end of the reporting period, the shareholder's equity of the Company amounted to RMB67.475 billion in total, representing an increase of RMB17.818 billion or 35.88% as compared to that at the end of last year. Please see "Financial Statements – Statements of Changes in Equity".

Management Discussion and Analysis

(IV) LOAN QUALITY ANALYSIS

1. Loan distribution by the five-category classification

In thousands of RMB, except percentages

Item	December 31, 2016		December 31, 2015	
	Amount of loans	Percentage (%)	Amount of loans	Percentage (%)
Pass	443,567,947	96.53	334,753,545	96.91
Special mention	9,823,085	2.14	6,436,407	1.86
Non-performing	6,102,021	1.33	4,232,909	1.23
Substandard	2,934,979	0.64	2,076,657	0.60
Doubtful	2,288,033	0.50	1,903,192	0.55
Loss	879,009	0.19	253,060	0.07
Total	459,493,053	100.00	345,422,861	100.00

The loan quality of our Company was kept at an excellent level, but as a result of the economic downturn, our Company saw a certain increase in loans classified as non-performing and special mention. As of the end of the reporting period, according to the five-category classification of supervision system, the normal loans amounted to RMB443.568 billion, representing an increase of RMB108.814 billion as compared to that at the end of last year, accounting for 96.53% of all the loans. Loans classified as special mention were RMB9.823 billion, representing an increase of RMB3.387 billion as compared to that at the end of last year, accounting for 2.14% of all the loans. The non-performing loans were RMB6.102 billion, representing an increase of RMB1.869 billion as compared to that at the end of last year, with a non-performing loan ratio of 1.33%, representing an increase of 0.10 percentage points as compared to that at the end of last year.

2. Distribution of loans and non-performing loans by business type

In thousands of RMB, except percentages

Item	December 31, 2016				December 31, 2015			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	353,200,030	76.87	5,215,673	1.48	242,484,549	70.20	3,724,275	1.54
Personal loans	88,268,581	19.21	886,348	1.00	63,111,113	18.27	508,634	0.81
Discounted bills	18,024,442	3.92	-	-	39,827,199	11.53	-	-
Total	459,493,053	100.00	6,102,021	1.33	345,422,861	100.00	4,232,909	1.23

As a result of the economic downturn, as of the end of the reporting period, our non-performing corporate loans amounted to RMB5.216 billion, representing an increase of RMB1.492 billion, with a non-performing loan ratio of 1.48%, representing a decrease of 0.06 percentage points as compared to the end of last year. The personal non-performing loans were RMB886 million, representing an increase of RMB377 million as compared to that at the end of last year, with a non-performing loan ratio of 1.00%, representing an increase of 0.19 percentage points as compared to the end of last year.

Management Discussion and Analysis

3. Distribution of loans and non-performing loans by industry

In thousands of RMB, except percentages

Item	December 31, 2016				December 31, 2015			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	353,200,030	76.87	5,215,673	1.48	242,484,549	70.20	3,724,275	1.54
Manufacturing	82,223,489	17.90	3,130,585	3.81	50,795,800	14.72	2,046,700	4.03
Wholesale and retail trade	64,730,164	14.09	865,783	1.34	36,978,096	10.71	890,671	2.41
Leasing and commercial services	56,026,555	12.19	71,494	0.13	37,390,404	10.82	39,317	0.11
Real estate	55,305,239	12.04	608,129	1.10	39,878,330	11.55	278,309	0.70
Construction	26,045,725	5.67	444,965	1.71	21,415,271	6.20	329,109	1.54
Administration of water conservancy, environment and public facilities	23,900,015	5.20	-	-	21,764,906	6.30	-	-
Transportation, storage and postal service	7,448,445	1.62	7,196	0.10	6,540,180	1.89	4,696	0.07
Electricity, heat, gas and water production and supply	6,588,230	1.43	400	0.01	3,774,675	1.09	1,573	0.04
Financing	5,358,641	1.17	-	-	5,931,548	1.72	-	-
Mining	4,857,390	1.06	50,672	1.04	3,985,721	1.15	63,231	1.59
Accommodation and Catering	3,835,856	0.83	9,997	0.26	3,856,737	1.12	32,402	0.84
Others ⁽¹⁾	16,880,281	3.67	26,453	0.16	10,172,881	2.93	38,268	0.38
Personal loans	88,268,581	19.21	886,348	1.00	63,111,113	18.27	508,634	0.81
Discounted bills	18,024,442	3.92	-	-	39,827,199	11.53	-	-
Total	459,493,053	100.00	6,102,021	1.33	345,422,861	100.00	4,232,909	1.23

Note:

- (1) Others include various industries such as public administration and social organization; culture, sports and entertainment; information transmission, computer service and software; agriculture, forestry, animal husbandry and fishery; household services and other services; scientific research, technology services and geological exploration; education, sanitation social security and social welfare.

In 2016, our Company actively supported the development of the real economy and followed the national economic restructuring, with a priority focus on national economy basic industries and national strategic emerging industries. The differential risk prevention and control strategy was formulated for areas such as industries with surplus production capacity, real estate and local government financing platforms. The Company also continued to optimize the allocation of credit resources. During the reporting period, our new non-performing loans were mainly attributable to manufacturing and wholesale and retail trade.

Management Discussion and Analysis

4. Distribution of loans and non-performing loans by geographic region

In thousands of RMB, except percentages

	December 31, 2016				December 31, 2015			
	Amount of loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)
Eastern China	243,706,939	53.04	4,444,688	1.82	200,043,980	57.91	3,139,352	1.57
Midwestern China	93,867,159	20.43	687,518	0.80	54,167,679	15.68	557,552	1.03
Northern China	80,273,764	17.47	868,801	1.08	65,892,661	19.08	489,694	0.74
Southern China	41,645,191	9.06	101,014	0.20	25,318,541	7.33	46,311	0.18
Total	459,493,053	100.00	6,102,021	1.33	345,422,861	100.00	4,232,909	1.23

During the reporting period, given the characters in economic pattern of various regions, the Company continued to optimize the regional credit allocation to actively prevent regional risks, and supported the developmental demand of the regions where our new institutions were established. The proportion of loans in Southern China and Midwestern China recorded a certain increase. As of the end of the reporting period, the region where the Company incurred a large volume of non-performing loans was Eastern China, where the non-performing loan ratio increased by 0.25 percentage point as compared to the end of last year.

5. Distribution of loans and non-performing loans by security type

In thousands of RMB, except percentages

	December 31, 2016				December 31, 2015			
	Amount of loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)
Collateralized loans	180,846,164	39.36	3,219,685	1.78	149,906,362	43.40	2,225,853	1.48
Pledged loans	72,495,022	15.78	39,936	0.06	40,865,811	11.83	42,791	0.10
Guaranteed loans	133,982,215	29.16	2,725,275	2.03	90,575,061	26.22	1,872,904	2.07
Unsecured loans	54,145,210	11.78	117,126	0.22	24,248,428	7.02	91,361	0.38
Discounted bills	18,024,442	3.92	-	-	39,827,199	11.53	-	-
Total	459,493,053	100.00	6,102,021	1.33	345,422,861	100.00	4,232,909	1.23

Our Company has been optimizing its customer structure continuously, innovating its business model, and strengthening the cooperation with strategic customers. As of the end of the reporting period, the pledged loans amounted to RMB72.495 billion, representing an increase of RMB31.629 billion or 77.4% as compared to that at the end of last year, primarily attributable to the rapid growth of innovative businesses such as “bill pool” and “asset pool”; the unsecured loans amounted to RMB54.145 billion, representing an increase of RMB29.897 billion or 123.29% as compared to that at the end of last year, primarily attributable to the continuous optimization of customer structure.

Management Discussion and Analysis

6. Ten largest borrowers

In thousands of RMB, except percentages

Top ten borrowers	Industry	Amount of loans	Percentages of total loans
A	Manufacturing	4,584,822	1.00
B	Real estate	2,000,000	0.44
C	Real estate	2,000,000	0.44
D	Wholesale and retail trade	1,847,080	0.40
E	Construction	1,710,000	0.37
F	Manufacturing	1,667,208	0.36
G	Manufacturing	1,600,000	0.35
H	Wholesale and retail trade	1,532,350	0.33
I	Manufacturing	1,440,000	0.31
J	Wholesale and retail trade	1,319,355	0.29
Total		19,700,815	4.29

As of the end of the reporting period, the balance of loans to our largest single borrower was RMB4.585 billion, representing 5.35% of the Company's net capital. The total loans to our top ten single borrowers amounted to RMB19.701 billion, representing 23.00% of the net capital and 4.29% of the total loans of the Company.

7. Overdue loans

In thousands of RMB, except percentages

Overdue period	December 31, 2016		December 31, 2015	
	Amount	Percentages of total loans	Amount	Percentages of total loans
Overdue by 1 to 90 days	1,126,320	0.25	2,574,292	0.75
Overdue by 90 days to one year	2,560,048	0.56	2,675,510	0.77
Overdue by one year to three years	1,816,149	0.40	1,047,723	0.30
Overdue by more than three years	12,775	0.00	14,374	0.00
Total	5,515,292	1.20	6,311,899	1.83

As at the end of the reporting period, the balance of overdue loans amounted to RMB5.515 billion, representing a decrease of RMB797 million as compared to that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB4.389 billion, representing an increase of RMB651 million as compared to that at the end of last year.

Management Discussion and Analysis

8. Loans renegotiated

The Company imposed strict and prudent management control over loan restructuring. As of the end of the reporting period, loans and advances renegotiated amounted to RMB287 million, representing an increase of RMB210 million as compared to that at the end of last year. Specifically, loans and advances renegotiated overdue by more than three months were RMB121 million, representing an increase of RMB87 million as compared to that at the end of last year.

9. Movements in allowances for impairment losses on loans

In thousands of RMB

	Collectively assessed	Individually assessed	Total
Balance at the beginning of the year	8,340,569	1,853,352	10,193,921
Net impairment allowances charged to profit or loss	5,827,139	2,591,715	8,418,854
Unwinding of discount on allowance	(36,321)	(20,197)	(56,518)
Write-offs	(830,415)	(483,588)	(1,314,003)
Transfer out	(370,829)	(1,180,504)	(1,551,333)
Recoveries	100,207	25,555	125,762
Exchange differences	7,713	–	7,713
Balance at the end of the year	13,038,063	2,786,333	15,824,396

(V) CAPITAL MANAGEMENT

Capital adequacy ratio and leverage ratio

In 2016, the Company maintained a stable growth in profits and the Company replenished core tier-one capital through H-share listing and issued tier 2 capital bonds to replenish tier-two capital, which effectively enhanced the capital quality and capital strength. As of December 31, 2016, net capital base of the Company amounted to RMB85.644 billion, net tier-one capital amounted to RMB67.438 billion and net tier-two capital amounted to RMB18.206 billion.

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), the measurement range of the Company's capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach. Moreover, the Company strictly measured credit risk-weighted assets and asset securitization risk-weighted assets of counterparties in accordance with the regulatory requirements.

In 2016, the Company focused efforts in strengthening the capital constraint mechanism, as a result of which, the risk-weighted asset allocation efficiency was improved and capital adequacy ratio was maintained at a stable and healthy level. As of December 31, 2016, capital adequacy ratio of the Company was 11.79%, tier-one capital adequacy ratio was 9.28%, core tier-one capital adequacy ratio was 9.28%, and leverage ratio was 4.22%, all of which met regulatory requirements.

Management Discussion and Analysis

Capital Adequacy Ratio

In thousands RMB, except percentages

Item	December 31, 2016	December 31, 2015
Core tier-one capital	67,706,445	50,409,543
Paid-in capital	17,959,697	14,509,697
Part of capital reserves that can be included	19,269,901	13,408,971
Surplus reserves	2,775,091	2,070,023
General risk reserves	13,242,456	8,241,258
Undistributed profits	14,459,300	12,179,595
Core tier-one capital deductible items	268,702	160,826
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	268,702	160,826
Net core tier-one capital	67,437,743	50,248,717
Other tier-one capital	–	–
Net tier-one capital	67,437,743	50,248,717
Tier-two capital	18,206,396	9,066,437
Tier-two capital instruments and premium that can be included	10,000,000	3,115,000
Excessive allowance for loan losses	8,206,396	5,951,437
Tier-two capital deductible items	–	–
Net capital base	85,644,139	59,315,154
Risk-weighted assets	726,578,153	537,252,918
Core tier-one capital adequacy ratio (%)	9.28	9.35
Tier-one capital adequacy ratio (%)	9.28	9.35
Capital adequacy ratio (%)	11.79	11.04

Leverage Ratio

In thousands of RMB, except percentages

Item	December 31, 2016	December 31, 2015
Tier-one capital	67,706,445	50,409,543
Tier-one capital deductible items	268,702	160,826
Net tier-one capital	67,437,743	50,248,717
Adjusted asset balance inside the balance sheet	1,303,897,192	982,553,658
Asset balance of derivative products	8,478,014	1,382,465
Asset balance of securities financing transactions	45,087,285	48,009,930
Adjusted asset balance outside the balance sheet	239,875,655	198,472,619
Adjusted asset balance inside and outside the balance sheet	1,597,338,146	1,230,418,671
Leverage ratio (%)	4.22	4.08

Note: Calculated under the related provisions of Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) issued by the CBRC in 2015.

(VI) RISK MANAGEMENT

1. Comprehensive risk management system

The Company adopts an active and solid risk appetite, which actively manages risks and is in line with the full-asset class operation strategy, it also helps to balance capital, risk and return, with the aim of pursuing sustainable and healthy development.

The Board is the highest decision-making body for the Company's risk management, and the president of our head office, as authorized by the Board, manages the risks across the Bank and makes decisions on risk management-related matters. The senior management has established special committees including the risk management and internal control committee, asset and liability management committee, credit review committee, investment and transaction review committee, asset risk classification review committee and business continuity management committee. The risk management and internal control committee is mainly responsible for managing various risks and making research on risk management and internal control system, policies, measures and other major issues. The risk management department at our head office is the general department for comprehensive risk management and the leading executive department for credit risk and country risk management; the financial market risk control department at our head office is the leading executive department for market risk (excluding interest rate risk of banking book) management; the asset and liability management department at our head office is the leading executive department for interest rate risk of banking book, liquidity risk management; the internal control and compliance and legal department at our head office is the leading executive department for operational risk and compliance risk management; the executive office at our head office is the leading executive department for reputational risk management; the development and planning department at our head office is the leading executive department for strategic risk management.

The Company implements a relatively vertical risk management model by accrediting risk monitoring officer to important departments at our head office and each branches. The risk monitoring officer is independent of accrediting departments and accrediting branches, and is directly responsible to the president of our head office. The risk monitoring officer shall be monitored by the accrediting departments and accrediting branches, and maintain adequate communication with the accrediting departments and accrediting branches in respect of the risk management issues.

The Company implements line risk management model which means to establish risk management centre or risk management position under competent authorities of business lines so as to improve the professional level and efficiency of risk management.

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to the default of counterparties and debtors or a decline in their credit. The Company's credit risk primarily lies in both on-and off-balance sheet businesses, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit and letters of guarantee, bond holdings and specific purpose carrier investments.

Management Discussion and Analysis

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's credit risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, branch and sub-branch presidents, branch and sub-branch relevant leaders (risk monitoring officer (supervisor)), credit review committee (team), investment and transaction review committee (team), risk management department, business department, marketing department and audit department. As authorized by the Board, the head office president is responsible for organizing the credit risk management of the Bank. The president is also responsible for formulating and implementing our fundamental policies and systems for credit risk management.

The Company formulates fundamental policies for our credit business at the beginning of each year based on the changes to our external operating environment and our internal operating and risk conditions. Such policies serve as the adjustments of policy guidance to be made to certain aspects of our credit business, such as industry structure, regional structure, customer structure, key business area and other aspects. In addition, the Company regularly adjusts our credit policies according to the development of and trends in the macro economy and our industry.

The Company classifies our credit assets by taking comprehensive consideration of the following factors in accordance with the standards set forth in the Guidelines on Risk-Based Classification of Loans (《貸款風險分類指引》) of the CBRC, including the borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of the project being financed by the loans and the status of the guarantees. The Company's credit asset risks are initially classified by client managers, then examined by the head of the marketing department and reviewed by risk management personnel and finally determined by authorized individuals.

(1) Credit risk management for corporate businesses

The Company conducts unified credit extension management system on corporate customers, and determines the credit quota and centralized credit scheme according to certain standards and procedures on the basis of comprehensive evaluation on creditworthiness and credit risk of those customers.

The Company strictly complies with relevant regulatory requirements of the CBRC and assigns loans (including trade finances), bill acceptances and discounting, overdrafts, bond investments, specific purpose carrier investments, opening letters of credit, factorings, guarantees, loan commitments and other businesses whose credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company determines comprehensive credit limit of single corporate customers, group customers and industry customers.

Management Discussion and Analysis

The Company continuously enhances the construction of our credit system, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

The Company further improved the concentration risk management, formulated the concentration risk management related system, clarified the responsibilities allocation and main methods of concentration risk management, and continued to promote the construction of concentration risk management.

The Company strictly complies with the various lending policies and regulatory requirements of the CBRC on the financing platforms of local governments, makes dynamic adjustments to the targets of credit granting, and further optimizes the lending structure of financing platforms to prevent the credit risks that may arise from governments' financing platforms; sets credit limits for the loans of local governments' financing platforms and enhances our monitoring and management on the loan risks.

The Company engages in real estate credit business prudently, has established a credit extension policy specific to the real estate industry, and adjusts our credit extension plans for the real estate industry in a timely manner; regularly conducts special stress tests on our loans granted to customers in the real estate industry; sets credit limits for the loans we grant to the customers in the real estate industry and ensures that such limits are flexible and adjusted in a timely manner, as needed, and enhances our monitoring and management on the risks relating to existing loans.

The Company sets limits for the loans we grant to the industries with high energy consumption, high pollution and "extremely excessive production capacity", strictly restrains the proportion of the balance of the loans granted to the industries with high pollution and energy consumption. The Company strictly controls the loans we grant to the industries with seriously excessive production capacity such as the steel, coal, shipping and electrolytic aluminum smelting industries.

(2) Credit risk management for small enterprise business

The Company conducts unified credit extension management system on small-sized enterprise customers, and assigns all types of credit businesses of small-sized enterprise customers under our unified credit extension management. The Company actively explores a professionalized operating model, continuously improved our management system and further combs and standardizes the procedures and requirements for credit extension to gradually cultivate a unique and standard credit extension model of the Company.

The Company continuously enhances the management on the credit risks of small enterprise business. The Company strengthens our measures for risk mitigation, and strictly controls the overdue loan and non-performing loans by ways of classification, tracking overdue loans and on-site and non-on-site monitoring.

Management Discussion and Analysis

(3) Credit risk management for personal loans

The Company actively builds our credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company has also formulated the entry barriers for different groups of customers, controls the overall limits of personal loans, restrains loans with multiple borrowers as well as improves and optimizes governance mechanism of credit risk for personal loans. The Company has continuously enhanced the selection and management of guarantee, and improved our ability to mitigate credit risks. The Company has also implemented focused review and approval, enhanced standardization and normalization in personal loans and our subsequent management such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans, to ensure our asset quality at a satisfactory level.

(4) Credit risk management for credit card business

The Company has established a credit card risk management system featuring prior-business risk prevention, on-going risk monitoring during the process and post business management. The Company's credit card department has formulated a series of rules and policies to standardize various business procedures, such as marketing and promotion procedures of credit cards and credit line approval procedures. To manage risks with respect to our credit card business, the Company has established a credit control center, a risk management center and an asset safety center under our credit card department for prior-business risk prevention, on-going risk monitoring during the process and post business management to take charge of the design and operation of the process for card issuance business, determination and control of our overall business risk tolerance, as well as the risk identifying, measuring, monitoring, assessment, control, mitigation and disposal during and after the grant of a loan.

(5) Credit risk management for inter-bank finance business

The Company's inter-bank finance business mainly comprises financial inter-bank business, money market business, investments and transactions business in bonds and other financial assets and foreign exchange and derivatives trading business. The credit risk faced with us is concentrated in money market business, bond investment business and financial inter-bank business.

The Company's money market business involving customer's credit risk must be included in our unified credit extension management system. When conducting money market business, we will draw up the customer's credit lines in accordance with the relevant policies for centralized risk management of customer's risk.

We manage the risks in our bond investment business through access criteria, credit limit control and credit extension risk assessment; the bond issuers are included in our unified credit extension management system. The credit risk of the invested bonds is tracked and monitored together by traders in the front office and employees in relevant risk management departments. In addition, the relevant risk management departments will also evaluate the credit risk of the invested bonds regularly.

Management Discussion and Analysis

The Company assigns financial inter-bank customers under the customer scope of unified credit management. The Company has improved a series of systems and procedures for the investigation, examination and approval of unified credit extension of financial inter-bank customers and carried out the risk classification and duration management of the financial inter-bank business.

3. Market risk management

Market risk refers to the risk from businesses on- and off-balance sheet businesses across the bank due to unfavorable changes in market prices (interest rates, exchange rates, stock prices and commodity prices). Market risk can be divided into interest rate risk, exchange rate risk, stock price risk and commodity price risk arising from adverse changes in interest rates, exchange rates, stock prices and commodity prices respectively. The term “market risk” in this section refers specifically to market risk other than interest rate risk in the banking book (details for interest rate risk in the banking book see “7. Management of interest rate risk in the banking book” below).

The objectives of our market risk management are to maintain our market risk to be within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank after the adjustment of risks.

The Company’s market risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, risk management department, financial market risk control department, financial market department, other departments and branches and sub-branches. As authorized by the Board, the head office president is responsible for organizing the market risk management of the Bank, including formulating, approving and implementing our fundamental policies and systems for market risk management.

The Company mainly takes the measures such as position setting management, limit management, hedging and reducing risk exposures to control market risk. The Company has established market risk management system pursuant to the relevant measures and guidelines of CBRC, formulated market risk management policies and procedures applicable to our business nature, scale, complexity and risk features, and maintained such policies and procedures in accordance with our overall business development strategy, management capabilities and capital strength. During the reporting period, the Company has formulated market risk preferences and risk control index system, revised the primary institution for market risk management and the corresponding administrative measures for the management of market risk, which further improved the systems for market risk management. The Company evaluates the positions of our trading book on a daily basis, continuously monitors trading limits, stop-loss limits and risk limits, and regularly measures the market risk for our trading book through stress testing and other methods.

Management Discussion and Analysis

4. Liquidity risk management

Liquidity risk refers to the risks of failure to obtain adequate funds in time at reasonable cost to repay debts when they are due, perform other payment obligations and meet other capital requirements in the ordinary course of business. The factors that influence the liquidity risk are divided into external factors and internal factors. The external factors include domestic and foreign financial conditions, macroeconomic policies, depth and tightness developments of financial markets and the competition outlook of the banking industry. The internal factors include the maturities of assets and liabilities, business structures, the stability of deposits, the ability to obtain financing in the market and various unexpected events.

The Company's objective in liquidity risk management is to keep efficiency while promoting continuous and stable development on the basis of ensuring the safety of capital operations.

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, asset and liability management committee, asset and liability management department, financial market department, risk management department, audit department, other departments and branches and sub-branches. As authorized by the Board, the head office president is responsible for organizing the liquidity risk management of the Bank. The president is also responsible for formulating and implementing our fundamental policies and systems for liquidity risk management.

During the reporting period, the Company managed our liquidity risk in a centralized manner. By establishing a scientific and perfect liquidity risk management system, the Company can effectively identify, measure, monitor, control and report the liquidity risk. Specific liquidity risk management measures include: paying close attention to both domestic and foreign macroeconomic situation and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing and maintaining the proportion of stable liabilities; promoting the diversification of financing channels and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the pre-warning monitoring and management on liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on regular basis, identifying the weak links in the Company's liquidity risk management according to the tests, adjusting liquidity risk management strategies or the size and structure of high quality liquid assets if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

As of the end of the reporting period, our liquidity coverage ratio was 130.49%, our high quality liquid assets amounted to RMB111.860 billion, and the total net cash outflows over the next 30 days was RMB85.723 billion.

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to inadequate or problematic internal procedures, personnel or information technology systems, as well as external events. The types of operational risk loss incidents that the Company may expose to mainly include seven categories, such as internal fraud, external fraud, employment systems and accidents on safety of working places, incidents related to client, product and business activity, damage to real property, incidents related to information technology system and incidents related to execution, delivery and procedure management.

The Company's operational risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, branch and sub-branch presidents, branch and sub-branch management teams, internal control & compliance management departments at all levels, risk management department, audit department, other management departments at all levels and business department. As authorized by the Board, the head office president is responsible for organizing the operational risk management of the Bank. The president is also responsible for formulating and implementing our fundamental policies and systems for operational risk management.

The objectives of operational risk management are to control our operational risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank adjusted with respect to risks. The Company has established three lines of defense for operational risk management, among which, the business departments and other management departments comprise the first line of defense, the internal control & compliance management departments and risk management departments at all levels comprise the second line of defense and the audit departments comprise the third line of defense. The Company imposes whole-process management on operational risks, promotes such three lines of defense to play a role in parallel, and conducts risk control and management from different perspectives, with particular emphasis on the first line of defense to play the role of risk prevention and control.

Management Discussion and Analysis

During the reporting period, the Company managed our operational risk by following the principle of “full coverage, clearly defined responsibilities, honest report and quick response”. The Company integrated its management resources, consolidated its foundation work and improved its management mechanism so as to enhance the quality and efficiency of operational risk management. Otherwise, the Company combed the rules and policies for various business lines across the Bank and management procedures for the key events to strengthen the effectiveness of system and procedure management and control; took full advantage of the internal control non-compliance registration system and the off-site monitoring system to identify, evaluate and monitor operational risks; carried out various business inspections across the Bank, such as specific review of the operational risk, inspection regarding banknotes business, the “Two Strengthenings and Two Preventions” inspection and the “Looking Back” inspection, so as to implement the requirements of policies issued by regulatory departments and further improve relevant systems and procedures, with the objective of promoting the update and optimization of multiple information systems. In addition, the Company further promoted our business continuity management system and completed the disaster recovery center information switching rehearsals to enhance its emergency response capability; carried out the inspection on employees’ abnormal behaviors and inappropriate positions, and conducted duty performance supervision on personnel in key positions to effectively prevent staff management risk. The Company propelled the establishment of operational risk standard under the New Basel Capital Accord to gradually complete the application of operational risk management tools. During the reporting period, the Company’s operational risk management system operated smoothly and the overall operational risk was controllable.

6. Country risk

The country risk is the risk incurred to the Company arising from the inability or refusal by the borrower or debtor to repay the debt, losses suffered by the Company or its commercial presence in such country or region and other losses due to economic, political, social changes and events in a country or a region.

The objectives of our country risk management are to control our country risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company’s country risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, corporate banking department, international business department, financial markets department, capital markets department, financial institutions department, asset management department, finance & accounting department, risk management department and branches and sub-branches. As authorized by the Board, the head office president is responsible for organizing the country risk management of the Bank. The president is also responsible for formulating and implementing our fundamental policies and systems for country risk management.

During the reporting period, The Company has established country risk management system pursuant to the relevant measures and guidelines of CBRC, formulated the primary institution for country risk management, clarified the responsibilities for country risk management, and continued to promote various relevant works.

7. Interest rate risk management of banking book

Interest rate risk in the banking book is the risk of loss in the overall gain and economic value of the banking book arising from adverse movements in interest rate and term structure etc.

The objectives of our interest rate risk management of banking book are to control our interest rate risk in the banking book within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, asset and liability management committee, financial markets department, capital markets department, financial institutions department, asset management department, risk management department, asset and liability management department, audit department, other departments and branches and sub-branches. As authorized by the Board, the head office president is responsible for organizing the interest rate risk management of banking book of the Bank. The president is also responsible for formulating, approving and implementing our fundamental policies and systems for interest rate risk management in the banking book.

The Company mainly evaluates our interest rate risk through sensitivity analysis. Based on our judgment on the trend of the benchmark interest rate and the market interest rate, the Company actively adjusts the interest rate sensitivity gap between our assets and liabilities mainly by adjusting and controlling the loans price-resetting period and the duration of our bond investment business. In the meanwhile, the Company pays close attention to the trend of local currencies and foreign currencies, keeps abreast of the changes in the market interest rates, conducts appropriate scenario analysis and adjusts the pricing methods for the interest rates of loans and deposits denominated in local currencies and foreign currencies in a timely manner to strive to prevent interest rate risk.

8. Reputational risk management

Reputational risk refers to the risk that a stakeholder will have a negative view on us as a result of our operations, management and other activities or external events.

Our objectives with respect to reputational risk management is to correctly respond to news relating to us, public opinions towards us and our relationships with our customers, actively and effectively prevent reputational risk and respond to reputational events, so as to reduce and mitigate the losses of and the negative impact of such events on the Company, stakeholders and the public in the society to the greatest extent. Reputational risk management has been included in corporate governance and comprehensive risk management system.

Management Discussion and Analysis

The Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, executive office, risk management department, information and technology department, audit department and other relevant departments at our head office, together with our branches and sub-branches, jointly constitute our organizational system with respect to reputational risk management of the Company. As authorized by the Board, the head office president is responsible for organizing the reputational risk management of the Bank. The president is also responsible for formulating and implementing our basic systems and policies for reputational risk management.

During the reporting period, the Company improved our basic system for reputational risk management and clarified the organizational system and responsibilities for reputational risk management; strengthened the training plan and performed the implementation with respect to reputational risk management; enhanced our management capabilities at the source, raised staff performances levels and actively carried out trouble-shooting of potential accidents so as to reduce the occurrence of events that may have a negative impact on us; improved contingency plans, and specified the procedures and reporting mechanism for dealing with reputational risks; reinforced the building of press spokesmen team and intensified the guidance for social opinion to raise the ability to respond to crisis; stepped up positive publicity efforts to elevate the prestige of our brands.

9. Strategic risk management

Strategic risk is the risk incurred to the Company arising from the improper operational strategy or external business environment changes etc..

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, development and planning department, risk management department, audit department, other departments and branches and sub-branches. As authorized by the Board, the head office president is responsible for organizing the strategic risk management of the Bank. The president is also responsible for formulating and implementing our fundamental policies and systems for strategic risk management.

Management Discussion and Analysis

Based on the principle of “Clear responsibilities, Prospective prevention, Overall evaluation, Proper adjustment”, the Company constantly perfects the strategic risk management system suitable to the scale and feature of business to maintain the robust and efficient operational strategy, and illustrates the strategic risk situation and management information by periodic reports to ensure the impact to be caused by factors such as macropolicies, industry risk etc. is in a controllable state and achieve the effective management over strategic risk. The main management measures include evaluating accurately the internal foundation; preparing scientifically the “Third Five-Year” Plan and promoting orderly the strategic implementation; following the industry’s development trend and improving unceasingly comprehensive benchmarking management system; planning the regional arrangement of management authorities and advancing steadily the transformation and development of branches; elevating the analysis level of strategic research and strengthening the prediction and evaluation ability on strategic risk; lifting the strategic responsiveness ability and perfecting the management mechanism of strategic risk.

10. Compliance risk management

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses that may result from the failure to comply with laws, regulations, rules and relevant industrial standards.

Our objectives with respect to compliance risk management are to establish a sound compliance risk management framework and promote development of a comprehensive risk management system which enables us to operate in a lawful and compliance manner.

The Company’s compliance risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, branch and sub-branch presidents, risk management department, compliance management department and audit department at all levels and other management departments and business departments at all levels. As authorized by the Board, the head office president is responsible for organizing the compliance risk management of the Bank. The president is also responsible for formulating and implementing our various fundamental policies and systems for compliance risk management.

The Company has established a relatively sound compliance risk management structure and a systematic compliance risk management system, and optimized three lines of defense for compliance risk management and dual reporting mechanism. We continuously modified, improved our compliance risk management mechanism and improved our risk management level to achieve effective control over compliance risks.

Management Discussion and Analysis

During the reporting period, the Company continuously deepened the compliance operation philosophy, and promoted compliance management efficiency effectively while exactly knowing the characteristic of the risk prevention and control under the new economic normal and sticking to the risk bottom line. The Company focused on the market heats, key points of regulation and work, and consolidated the indicating work of compliance risk; carried out continuous, dynamic and comprehensive evaluation, optimized and improved rules and regulations, and perfected internal and external system database, in order to render an effective system guarantee in terms of the Company's operation and management; established and completed classified and layered compliance education and training system, including the staff training for new entrants centering on global culture concept and basic rules and regulations, the business training for operational posts focusing on strengthening system implementation and standardized operation, the business training for management posts emphasizing on reinforcing risk awareness and compliance operation consciousness and so on; initiated the construction of "3 in 1" integrated management project in respect of operation risk, internal control and compliance, with a view to building an integrated management system in this regard that matches the complexity level of the Company's business and fully upgrading the quality and efficiency of compliance management based on the system's platform; persistently improved the management and control ability for legal compliance, made greater legal supportive efforts for daily operational activities, actively followed up changes in national and international laws and regulations and regulatory policies and movements in judicial decisions, and put the legal services into the entire process of product R&D, in order to support and promote in every respect the business innovation and the healthy and stable development of the Company.

11. Anti-Money Laundering Management

The objective of the Company's anti-money laundering work is to effectively identify, evaluate, monitor, control and report the money laundering risk by establishing and perfecting the internal control system suitable to the anti-money laundering requirements and our development strategy to effectively guard against and control the money laundering risk.

During the reporting period, the Company carefully performed its social liability and legal obligations on anti-money laundering, and pushed forward firmly various anti-money laundering work on the principle of "Law compliance, risk-oriented regulatory, total involvement, profession & efficiency, keeping confidential", including completing the anti-money organizational structure, and clarifying the duties and job responsibility on anti-money laundering at all levels; establishing and perfecting the internal control system on anti-money laundering, and building the centralizing monitoring model; optimizing the system function of the anti-money laundering business, and setting up suspicious transaction autonomic monitoring model; enhancing suspicious transaction monitoring analysis, presenting reports on huge amount transaction and suspicious transaction on request, seriously developing risk inspection and performing well the risk control; solidly carrying out the assessment on money laundering risk, and improving the management in respect of businesses and clients with high risk; advancing profoundly the specialized administrations over basic information on clients, strengthening the publicity and education on anti-money laundering, organizing the implementation of anti-money laundering internal audit, continuing to improve the anti-money laundering management level.

(VII) BUSINESS SUMMARY

1. Corporate business segment

(1) Corporate business

In term of corporate business, the Company has focused on developing itself into a bank that provides corporate liquidity services, strived to promote the innovation upon product and financial services model as well as business transformation and development, actively served the key national strategies and real economy, and achieved multi-win of the society, enterprise and bank by deleveraging and lowering costs for enterprises and creating values for customers. During the reporting period, the Company's corporate business has developed against the trend, with a rapid growth achieved and the core competitiveness further improved. As at the end of the reporting period, the Company had 55,460 corporate customers, representing an increase of 10,721 ones or 23.96% as compared with that at the end of last year; balance of corporate loans was RMB353.2 billion, representing an increase of RMB110.715 billion or 45.66% as compared to that at the end of last year.

The Company made positive response to the changing situation, grasped the opportunity in the economy changing to "new normal", implemented the strategy of Chinese government to support the development of emerging industries and promote the transformation and upgrade of industrial structure, advanced business transformation and development, and obtained new breakthroughs. During the reporting period, the Company has established professional operation management and credit extension & review teams with respect to the five emerging industries, namely information industry, new energy industry, health industry, cultural industry and modern logistics industry, positively sought after business opportunities in emerging industries and intelligent manufacturing sectors, and explored into a professionalized, systematized and individualized financial service model. As at the end of the reporting period, the Company's financing balance in the five emerging industries exceeded RMB120 billion, representing an increase of over 100% as compared to that at the end of last year, while the financing balance in intelligent manufacturing amounted to nearly RMB18 billion, representing an increase of nearly 200% as compared to that at the end of last year.

(2) International business

During the reporting period, the Company's international business achieved a rapid growth in business scale by accelerating product innovation and improving service means. We've completed the international settlement of US\$44.439 billion, representing an increase of 55.57% on a year-on-year basis; the income of intermediary business amounted to RMB332 million, representing an increase of 72.59% on a year-on-year basis. According to statistics from January to December by the State Administration of Foreign Exchange, the Company's foreign exchange receipts and payments amounted to US\$31.866 billion, representing an increase of 47.94% on a year-on-year basis, with the year-on-year growth rate ranking the first among the nationwide joint-stock commercial banks. The Company was rated "Class A" for foreign exchange management assessment.

Management Discussion and Analysis

Strengthen the development of “light assets” financing business. By taking full advantage of low risk and low capital occupancy features of trade financing, the Company focused on promoting the low capital consumption business such as import letter of credit, forfaiting, export credit insurance financing, etc. It is noteworthy to mention the business model of “Yongjin Export Pool + credit insurance financing”, which has realized zero capital consumption while enlarging the basic customer base. As at the end of the reporting period, the balance of trade finance amounted to US\$9.941 billion (local and foreign currency converted to USD), saving the credit risk-weighted assets of RMB45.812 billion comparing with ordinary credit business.

Develop vigorously the commissioned foreign exchange trading business. In line with the market situation, the Company accelerated product innovation, launched the commissioned foreign exchange trading products of “Trading + Settlement” mix, “Trading + Financing” mix, and “Trading + Deposit” mix, helped enterprises lower financing costs and evade risks from foreign exchange market fluctuation. During the reporting period, our commissioned foreign exchange trading volume on behalf of customers amounted to US\$19.161 billion, representing a year-on-year growth of 144.71%, of which spot transaction amounted to US\$11.062 billion and derivative transaction amounted to US\$8.099 billion.

Accelerate to promote the Internet Plus operation of international business. The Company has actively adopted the operating concept of “Internet Plus”, promoted the online service functions for foreign exchange business. Our corporate online banking system has launched functions like the online documentary business, foreign exchange settlement and sales, online transfer application, and batch foreign exchange remittance; our personal online banking system presented functions like foreign exchange settlement and sales, foreign currency cross-border remittance, transfer of foreign currency from current deposit account to fixed term deposit account, etc.

Management Discussion and Analysis

(3) Pooled financing platform

The Company paid close attention to the two core needs of enterprises as “reducing financing costs and improving service efficiency”, brought forth new ideas in the “pooled” and “online” financing business model, introduced the online supply chain finance “1+N” solution and “Zhizhen Loan” based on the “three pools” (namely, Yongjin Bill Pool, Yongjin Asset Pool and Yongjin Export Pool), formed into a complete set of comprehensive corporate liquidity financial service solutions, assisted enterprises to stimulate current assets such as corporate bills receivables, accounts receivables, etc., realized online operation, self-service financing, withdrawal on demand and loan revolving and thus reduced corporate capital reserves and total loans, lowered corporate financing leverage, reduced interest expenditure, and lowered financing costs. As at the end of the reporting period, the Company had 9,452 customers of Asset Pool (Bill Pool) who signed contracts with respect to these products, representing an increase of 144.68% as compared to that at the end of last year, with an accumulated pooled asset amount of RMB467.699 billion, representing an increase of 188.78% as compared to that at the end of last year; pooled asset balance summed RMB154.440 billion, representing an increase of 210.53% as compared to that at the end of last year; contracted customers of Export Pool reached 1,282, with an accumulated 25,100 pooled accounts receivables, an accumulated pooled asset amount of US\$3.137 billion, and export receivables financing of US\$1.149 billion; 351 customers have signed contracts with respect to Zhizhen Loan for three months since its launch, with the financed balance reaching RMB10.939 billion.

2. Inter-bank financial segment

(1) Business overview

In terms of our inter-bank financial segment, the Company aimed to establish a professional “trading service bank”, coped with the market and regulatory changes in a flexible and efficient manner, intensified the construction of professional service capability and collaborated operation mechanism, participated in the construction of multi-level capital market positively, continued to diversify the source of assets and liabilities, intensified development impetus and confidence against the trend, and realized conforming, sustainable and rapid development of relevant businesses. As a major approach for the Company to expand market and serve real economy and a main profit-making source, the role of inter-bank financial segment has been further highlighted, with its characteristic competitiveness and market influence further enhanced. During the reporting period, the growth rate in revenues and profits from financial market business, capital market business, interbank business, asset management business, investment banking business and asset custodian business within the inter-bank financial segment has remarkably increased.

Management Discussion and Analysis

(2) Financial market business

In terms of the financial market business, the Company made positive efforts to establish a comprehensive FICC (Fixed Income, Currency & Commodity) trading platform integrating proprietary investing and financing, proprietary trading and trading on behalf of customers, and strengthened business innovation and synergies of cross-board, cross-market and cross-assets types, with an aim to provide an all-around, one-stop and sustainable financial services solutions. During the reporting period, the Company has obtained the qualification as a first-class dealer for open market business of the People's Bank of China; become one of the first 14 core traders of credit risk mitigation tools and founding institutions of credit risk mitigation warrants and credit-linked notes; further diversified the product lines of precious metal trading business, and presented the gold lease business and personal real gold agency business dedicated to corporate customers and personal customers respectively.

The Company's financial market trading business continued to maintain a rapid growth momentum, with the local currency and foreign exchange markets trading volume growing by 1.2 times and 1.6 times as compared with that of last year, ranking the 25th and 27th on the markets, improving by 8 places respectively as compared with that of last year; the Company has also expanded the overseas market actively, established partnership with 43 overseas institutions as foreign currency bonds counterparties, and won the honor as the Best G3 Bonds Investment Institution in Asia 2016 by The Asset magazine; the Company has carried out overseas bonds option, interest-rate swap and swapping option, with an aim to provide customers with risk mitigation services while hedging the proprietary trading market risks.

The Company has made positive efforts to establish the efficient and collaborative financial market commissioned trading system, which not only conforms to the development trend of financial market business for international leading banks, but also meets the internal requirements for implementing the "full-asset operating strategy" and providing diversified services for real economy customers. By utilizing the license, talent and technical advantages, the Company has established the commissioned trading product line characteristic of fixed income, foreign currency and bulk commodity, to provide trading intervention, wealth preservation & appreciation, interest rate and exchange rate risk mitigation, market consultancy and other services for corporate customers, personal customers, and financial inter-bank customers. As at the end of the reporting period, the Company's trading volume in foreign exchange derivatives and precious metals on behalf of customers has increased obviously as compared with that of last year.

Management Discussion and Analysis

(3) Capital market business

The Company took the lead in the industry to explore into the coordinated development of commercial banks and multi-level capital markets, provided customers with multi-dimensional and full-process financing, intelligence leveraging and knowledge acquirement services through innovation in organizational structure, product services and systematic mechanism, and actively forged a full-value service bank intimate to enterprises. During the reporting period, the Company focused on promoting the integration, transformation and upgrade of traditional industries, the incubation and cultivation of emerging industries, and the structural reforms on the service supply side, and gained great reputation and influence at the market via the efficient, innovative, sound and standardized comprehensive strengths. As at the end of the reporting period, balance of various capital market businesses of the Company amounted to RMB249.426 billion.

The Company built its featured competitive strengths by offering high efficiency, high value-added and differentiated services. The Company's diverse capital market product lines have currently covered the investment and financing needs from the primary development of an enterprise to its listing, as well as from re-financing needs after listing, to M&A and restructuring needs for industrial integration, transformation and upgrade. The Company can help enterprises optimize their financing structure in a multi-level and full-chain manner, and have the initial ability to provide enterprises with full life-cycle services.

In terms of the capital market business, the Company continued to insist on "serving the real economy instead of the virtual economy", "disintermediation", and serving real economy and national strategy. The Company actively participated in industry guidance funds of national and local governments, and service innovation. The Company attempted to promote industrial transformation and upgrade by cooperating with listed companies and industry leaders to establish the equity M&A fund. We've also taken active part in construction of PPP project, increased support of packaged financing, and made active response to debt approach transformation of local governments. As at the end of the reporting period, the Company has served over 300 listed companies, and expanded the key customer bases of various leading enterprises, new economy entities and local government industry funds.

(4) Inter-bank business

Adhering to the operating concept of "broad inter-bank" in the interbank business, the Company positively accommodated to the market and policy changes, continued to strengthen product and service innovation, control the development rhythm reasonably, promoted and innovated the business expansion and inter-bank assets structure, and made the growth rate in efficiency higher than that in assets scale. During the reporting period, the trading volume of bill transfer discounts reached RMB6.39 trillion, representing a year-on-year growth of 275.64%. Hence, the Company got the shareholder qualification from Shanghai Commercial Paper Exchange Corporation Ltd and became one of the first pilot banks of the bills trading platform.

Management Discussion and Analysis

The Company's inter-bank business adhered to the principle of "serving the real economy instead of the virtual economy", and initiatively provided services for the customer base. During the reporting period, the Company has provided better fund support and integrated service solutions for customers via diversified inter-bank assets tools, and gradually completed the transfer of assets allocation to real customer base.

The Company actively expanded all kinds of inter-bank customer channels, strengthened the inter-bank information sharing, and promoted profound cooperation with non-banking financial institutions. During the reporting period, the two-way credit extending limit between the Company and main commercial banks grew sharply comparing with that of last year, which has powerfully supported the business development in various lines.

(5) Asset management business

The Company's asset management business aim to build an asset management platform that is equipped with cross-market and multi-tool applications, enjoys professional efficiency higher than our peers and provides one-stop solutions to fulfill customers needs. The Company implemented the strategy of "professional management, customer first, differentiated competition and leading efficiency", positively innovated the highly integrated investment and financing model, and made initiative response to the needs of "reducing industrial capacity, destocking, deleveraging, lowering costs and filling the short board", and focused on the key national strategies of "One Belt and One Road", "Beijing-Tianjin-Hebei Coordinated Development", "Yangtze River Economic Zone" and "Made in China 2025", as well as the key fields of "Innovation and Entrepreneurship Program", green financing, high and new technology, etc. During the reporting period, the Company absorbed the scattered social funds by asset management business and concentrated on serving the real economy amounting to RMB232.616 billion, representing an increase of 36.06% as compared with that of last year.

At the end of the reporting period, the balance of our wealth management products amounted to RMB429.206 billion, representing an increase of 100.48% as compared to that at the beginning of the period, including balance of open wealth management products which amounted to RMB419.829 billion and accounted for 97.82%, close wealth management products which amounted to RMB9.377 billion and accounted for 2.18%, balance of non-guaranteed wealth management products which amounted to RMB429.106 billion and accounted for 99.98%, and balance of guaranteed wealth management products which amounted to RMB100 million and accounted for 0.02%. During the reporting period, the Company issued wealth management products of a total of RMB567.822 billion, representing an increase of 64.05% on a year-on-year basis, and realized investment income of a total of RMB9.330 billion for our customers, representing an increase of 292.68% on a year-on-year basis; the Company gained the fee income from wealth management business of RMB5.417 billion, representing an increase of RMB3.285 billion as compared to last year. The Company introduced the factor of Internet Plus, and innovatively launched the Yongjin Purse 2 non-scheduled open product and Yongjin Wealth business to provide personal customers with better wealth value-added channels. During the reporting period, 114,700 effective personal wealth management customers were newly added, with the growth rate at 96.08%.

Management Discussion and Analysis

During the reporting period, the Company was selected as the vice director of the Wealth Management Professional Committee of China Banking Association, and was awarded “Best Return Award” and “Best Risk Control Award” among wealth management institutions of the China banking industry.

(6) Investment banking business

Through the customer-based investment banking business, the Company innovatively adopted the investment banking product system to provide customers with bond underwriting services, built up the direct debt financing service bank, and continued to expand market competitiveness and influence.

During the reporting period, the Company continued to innovate and improve the investment banking products and business models catering for market demands, successfully made use of various matured products and innovative products available on the inter-bank markets, strengthened the construction of investors team, focused on providing customers with direct financial services via the investment banking business, and continued to lower the financing costs for customers and serve the real economy. Through multiple underwriting ways like exclusive lead underwriter, co-lead underwriter and financial adviser, the Company acting as underwrote various types of bonds at the inter-bank markets, such as local government bonds, financial bonds, corporate bonds and asset-backed securities, amounting to RMB91.382 billion, representing an increase of 36.95% on a year-on-year basis. The Company’s investment banking business was awarded the “2016 Best Bank of Investment Banking (Industry) in China District” and the “2016 Best Bond Underwriting Bank in China District” by the Securities Times.

(7) Asset custodian business

During the reporting period, the Company’s asset custody scale continued to grow rapidly, contributing to the increasing custody fees and the doubled customer number for asset custody business. As at the end of the reporting period, the balance of assets under custody exceeded RMB1 trillion to reach RMB1,423.516 billion, representing an increase of 360.93% as compared to that at the end of last year; the accumulated income from custody fees amounted to RMB192 million, representing an increase of 99.14% on a year-on-year basis. In 2016, the growth rate of scale of the Company’s custody assets ranked the first among the industry. Meanwhile, the growth rate of three individual indicators, namely scale of wealth management custody products, scale of custodian trust plans custody and scale of insurance funds custody ranked the first among the industry. (Derived from the statistics of the China Banking Association Trusteeship Professional Committee).

The Company continued to increase the variety of custodian products, and established the custodian products system covering public offering securities investment fund, fund house client asset management product, securities house client asset management product, bank financing product, trust plan, equity investment fund and insurance house asset management product. During the reporting period, the Company also launched the asset custodian business project management system and electronic intelligent payment system, and further improved the asset custodian business process and management approach.

Management Discussion and Analysis

3. Large retail segment: small enterprise business

During the reporting period, the Company targeted at building a bank providing customized services for small and micro enterprises as well as the financing benchmark for small and micro enterprises, strengthened innovation, enhanced coverage of financial services, and developed small and micro enterprise business rapidly. As at the end of the reporting period, the balance of national-standard small and micro enterprise loans of the Company was RMB143.629 billion, representing an increase of RMB36.215 billion or 33.72% as compared to that at the end of last year. The small and micro enterprise loans accounted for over 30% of total loans, ranking first among nationwide joint-stock banks, and achieving the “three no more than” assessment targets of CBRC.

Meanwhile, our small and micro business was undergoing benign development and increasing business sustainability. Small and micro business showed high returns, with the interest rate 2 percentage points higher than other loans; the per capita accounts reached over RMB120 million. The asset quality maintained at a relatively good level, with the non-performing ratio being 1.29% and the special mention rate being 1.26%, both lower than the average level in the industry. The integrated marketing developed obviously, with the number of cross-selling products being 4.05, increasing by 0.94 as compared with that at the beginning of the year.

The Company improved the customer echelon level, developed more than 20,000 new small and micro business customers throughout the year, and provided services for 132,100 customers in aggregate. We also established the growth cultivation mechanism for small and micro business customers, launched the “growth loan” series products, built up the financial service system covering the start-up, growth and expansion of small and micro enterprises, and further improved the continuous service capability. As at the end of the reporting period, the balance of our “growth loan” series products reached RMB757 million. The Company strengthened the development of non-credit-extending settlement products, and developed such products as “accounts universal”, “single version Internet banking”, “small and micro business settlement card”, etc.

The Company took multiple measures to explore new industries, and boosted the transformation and upgrade of the small and micro customer base. We also promoted the “Innovation and Entrepreneurship Program” and “E-commerce” loan products, offered support for high-end talents by using “Elite Loan”, and provided entrepreneurship funds for “Thousand Talents Program for Our Nation, Province or City”. The first pilot branch of “Talent Bank” was formally established to provide specialized financial services for entrepreneurship of high-end talents. As at the end of the reporting period, the loan balance of “Innovation and Entrepreneurship Program” and “E-commerce” customers amounted to RMB15.737 billion and RMB6.259 billion respectively, representing an increase of RMB14.491 billion and RMB5.210 billion respectively as compared with that at the end of last year; loan balance of small and micro enterprises in emerging industries amounted to RMB28.804 billion, representing an increase of RMB11.447 billion as compared with that at the end of last year.

Management Discussion and Analysis

The Company explored into the application of financial technology to provide easy and convenient financial services for small and micro enterprises. We deepened the cooperation with third-party institutions, carried out “loan aid” business, and expanded our customer source via big data analysis technology. The Company took the lead in the industry to launch the fully online “Easy Loan” business, which can complete review and approval within 1 hour, and realize online application, review & approval, and loan extension 24 hours a day, characterized by fully online, data-intensive and automated operation.

4. Large retail segment: personal business

The Company continued to intensify the construction of personal business system by adhering to the development direction of building ourselves into “a bank for personal wealth management” and by strengthening the “Internet Plus” innovation, attached great importance to personal loan business and private banking business, continued to enhance customer service experience, and maintained a rapid growth in business operations.

As at the end of the reporting period, the Company’s personal financial assets totaled to RMB147.184 billion, representing an increase of 105.14% as compared with that at the end of last year; the number of individual effective customers reached 2,105,800, representing an increase of 91.38% as compared with that at the end of last year. Thus, the Company was honored as “2016 Annual Best Innovative Bank for Retail Business” by Financial Times and Chinese Academy of Social Sciences.

(1) Personal deposit and loan business

The Company continued to innovate upon deposit products, positively developed innovative personal deposit products like Youlijia and Huolijia, actively promoted personal large deposits, and strengthened the deposits marketing activities like public-private linkage and batch customer expansion; the Company gradually focused on personal housing loans and consumption loans, adopted the differentiated housing loan policy in a steady and sound manner, innovatively launched new consumption loan products like “Zhe Mortgage Loan” and “Zhe Credit Loan”, and achieved a rapid growth in personal deposit and loan business. As at the end of the reporting period, balance of the personal deposits was RMB33.548 billion, representing an increase of 54.74% as compared with that at the end of last year; balance of personal consumption loans and housing mortgage loans was RMB12.974 billion, representing an increase of 455% as compared with that at the end of last year, with the good loan quality maintained continuously.

(2) Wealth management

The Company is committed to meeting the integrated financial needs for customer development, continuously improving its wealth management capability, and enriching the wealth management product systems including Yongle Finance, Characteristic Deposit, Zengjinbao and Delegated Investment & Finance; we also innovatively launched the comprehensive liquidity service solutions focusing on “Finance Market” and “Zengjin Wealth Pool”. During the reporting period, the accumulated sales amount of personal financing products reached RMB141.509 billion, representing an increase of 81.43% on a year-on-year basis. Balance of Zengjinbao was RMB12.228 billion, and it was awarded as the “2016 Annual Best Deposit Product” by The Asian Banker.

Management Discussion and Analysis

(3) Private banking

During the reporting period, the Company comprehensively promoted the construction of private banking business system, emphasized on R&D and launch of private banking investment and financing products featured by controllable risk, higher returns and diversified terms; and established the value-added service systems like “airport and high-speed rail 7X24h free car pickup” service and “Z20” high-end series activities. In November 2016, the Company officially announced to develop the private banking business, from which the financial assets and number of private banking customers showed a favorable development momentum.

(4) Credit card business

Being customer-centered, the Company’s credit card business continuously launched a series of new products including car card, government card, ETC card and personalized card by considering the customer needs and concerns, and we also successfully issued the Visa Card, forming a product service system covering both China and abroad; the Company carried out various promotion activities with the themes of “spring blossoms” and “Zhe cards benefiting life, food, movie, travel and shopping”, and enriched the special private doctor interests and rights of platinum card holders; we also established the online/offline interactive marketing channel system such as WeChat, mobile terminal, telephone banking, Internet banking, mobile APP, QR code recommendation, and customer service representative calling etc., which comprehensively improved the card using experience of customers.

As at the end of the reporting period, the Company has totally issued 1,103,000 credit cards, with 897,800 cards newly issued during the reporting period; the cumulative consumption amount was RMB9.875 billion and the overdraft balance was RMB2.091 billion, with the bad credit rate being 0.98%. The Company’s credit card business was awarded the “2016 Annual Bank Card Innovation Award” by China Banking Association and “2016 Annual UnionPay Card Promotion Contribution Award” by China UnionPay.

5. Internet Finance and Electronic Banking

(1) Internet Finance

During the reporting period, the Company captured the significant opportunity brought by “Internet Plus” strategy implemented by our nation, and regarded the corporate and individual clients in the Internet Plus environment as our service and marketing target, and made remarkable achievements in multiple fields starting with the typical problems of our clients and the application scenarios: Innovative products such as Mobile Cloud Pay have been applied comprehensively and flourished; significant projects such as consumer finance platform and finance IOT platform were implemented on schedule and completed continuously; the Internet finance business realized cross-border cooperation with multiple industries in an integrated development mode.

First, our innovative products have all made great breakthrough. During the reporting period, the Company continued to launch many innovative businesses such as Mobile Cloud Pay, Payment Custody Express, Direct Finance Express, Single-purpose Business Repayment Card and Payment Express, which were highly praised by customers.

Management Discussion and Analysis

Second, our Custody Express business flourished in many respects. During the reporting period, the Company has reached cooperation intentions with tens of bulk commodity trading markets. Our Custody Express has been successfully applied in 7 trading markets, where totally 60,000 deals have been traded, with the accumulated trading amount in excess of RMB10 billion.

Third, our Receipt and Payment Express business became a basic platform. During the reporting period, the Company's Receipt and Payment Express System has become a basic receipt and payment channel for Internet finance products such as our Custody Express System, and has provided receipt and payment services for our credit card repayment business; meanwhile, the Company has also provided entrusted receipt and payment business for external e-commerce platforms, public utilities payment, smart campus, etc.

Fourth, our consumer finance boomed. During the reporting period, the Company innovatively launched the consumer finance platform to meet the featured needs of real estate intermediary industry, and realized the breakthrough of Internet finance business from traditional receipt and payment settlement to assets business.

Fifth, our cross-border cooperation was highly deepened. During the reporting period, representative projects of the Company were successfully launched and applied in multiple fields such as securities industry, finance market, consumer finance and public utilities payment.

(2) Electronic Banking

The Company has comprehensively formed an electronic banking services system consisting of online banking, direct selling mobile banking, telephone banking, mobile banking, WeChat Banking and self-service banking system, etc. The replacement rate of electronic banking channels reached 95.91%, reaching the leading position in the industry. The Company was awarded the "2016 Innovative Mobile Application Prize" of Gold Award of E-Banking in China.

Online banking

During the reporting period, the Company continued to optimize and upgrade the personal online banking, and launched a brand-new interface style to greatly facilitate friendly interaction; characteristic functions like Money Market, Golden Fortune Pool and Golden Treasury were newly added to make the product variety meet more customer needs. As at the end of the reporting period, the number of certificate customers of our personal online banking reached 397,000, representing an increase of 70.27% as compared with that at the end of last year; the number of our corporate online banking customers reached 63,300, who completed 14,816,600 various transactions via our corporate online banking system, with the transaction amount of RMB4,516.119 billion.

As one of the most important self-service channels for our customers, online banking channel continued to maintain steady development, with the customer base getting enlarged and customer trading vitality advancing ceaselessly.

Management Discussion and Analysis

Direct selling mobile banking

During the reporting period, direct selling mobile banking had covered the direct selling mobile banking of the Company's official website, mobile Zengjinbao App and WeChat banking etc., becoming a main channel for the sale of investment and financial products. The online personal financial products transfer service has gained extensive recognition among users. In addition, the ID card picture uploading and human review function was adopted to improve the user's identity information, which was named "Best Customer Experience" in the Gold List of E-banking in China. As at the end of the reporting period, the number of customers in direct selling mobile banking reached 849,000.

Telephone banking (95527)

The telephone banking upholds the service motto of "beyond expectation by customer-centered and considerate services" by breaking the traditional mindset of customer service to build a multi-channel operating platform assembling telephone, Internet, QQ corporate telephone, text messaging, WeChat, fax, e-mail, etc. The service content involves all of our finance businesses, with service forms including self-help voice service, human telephone service, human online service, WeChat, e-mail, etc. More customers could be reached by taking advantage of service contacts and natural interaction, while their needs could be deeply recognized through cross-marketing or secondary marketing, which effectively enhanced integrated customer service capability.

During the reporting period, the Company received 3,391,500 customer calls, of which 2,014,200 calls were transferred to our customer service representatives, with the customer satisfaction rate up to 99.61%. The resolution rate of customer complaints reached 100%. The Company was awarded the "Excellent Service Prize" and "Excellent Innovation Prize" by China Banking Association in the Fourth Excellent Customer Service Selection Activity.

Mobile banking

During the reporting period, the Company was committed to forging mobile banking as the main platform for mobile financial services. A new version of mobile banking was launched through deep integration of mobile Internet Plus technology, which has greatly enhanced the customer experience and effectively satisfied the customer needs for mobile financial services. As such, it was named "2016 Innovative Mobile Banking" by Sina Finance. As at the end of the reporting period, the Company had attracted 441,600 mobile banking customers.

WeChat banking

During the reporting period, the Company was committed to establishing WeChat banking to be an important platform for new types of financial services and brand promotion. As at the end of the reporting period, the Company had approximately 966,000 customers in WeChat banking, while the amount of information being read in WeChat banking exceed 7,600,000 times. The official public WeChat banking was named "2016 Best Social Marketing Platform in Financial Sector" in Golden Chestnut Award of China Financial Marketing.

Management Discussion and Analysis

Self-service banking

During the reporting period, the Company continued to establish the self-service banking channels to provide customers with 7×24 hours self-service banking such as automated teller machines and cash recycling systems, so as to fully meet the customer needs of deposits, withdrawals, transfers, balance inquiries, password modification and other financial services. It is noteworthy that the non-contact cash withdrawal function has been realized in some ATMs. During the reporting period, the Company realized 2,700,000 ATM transactions, with the transaction amount up to RMB4.95 billion.

(VIII) OUTLOOK

Looking forward into 2017, the world economy will remain in a slow recovery stage, with the rise in trade protectionism, the boost in anti-globalization trend and the increase in future uncertainty. The overall domestic economy is in the path of a stable growth, and is expected to accelerate gradually, but the downward pressure still exists. Along with the continuous deepening of supply-side structural reform, the speeding up of new and old power switching, the gradually optimization of economic structure, the major structural imbalance in China will be effectively improved.

For commercial banks, the more complex external environment will bring a severe test on the operation and management of those banks. On the one hand, the US dollar is entry into an interest rate hike cycle, China's monetary policy orientation is stable leaning neutrality, and the liquidity space is gradually reduced, which bring greater pressure on fields with certain bubbles and leverage, and will become an even greater threat to the asset quality of commercial banks, as well as bring greater challenges on risk prevention and control of commercial banks. On the other hand, affected by prudential macro-assessment system of the central bank, coupled with many factors such as de-capacity and de-leverage of the real economy, the banking balance sheet expansion will be inhibited and will grow steadily but slowly. The domestic banking regulatory policy is tightening, while the regulatory trend of full-coverage, cross-market, standardization and domestic and foreign convergence is increasingly clear, which may have an impact on the development of some banking businesses in the short-term.

At the same time, the domestic and international economic situation will also bring greater opportunities for the innovation and development of banking industry. With the deepening of supply-side structural reform, the traditional kinetic energies gradually generate new vitality and the development pace of new kinetic energies is speeding up. New kinetic energies developed by new technologies, new industries, new formats and new patterns will provide larger and updated market space for the banking industry. Fiscal system, taxation system, household registration system and land reform will accelerate the transformation of China to the consumer-driven economy, the industries led by consumption upgrade will show a rapid development trend, while the inclusive finance and green finance will become a new starting point of financial reform. The financial reform will be substantial advanced, integration, investment linkage and asset securitization will create a favorable policy environment for the transformation and development of banks.

Management Discussion and Analysis

In the face of opportunities and challenges, under the guidance of the general objective of “two most”, the Company will continue to promote the implementation of our full-asset class operation strategy. By firmly upholding the philosophy of reform, innovation and cooperation, the Company will unswervingly promote the transformation and development through generating advantages, reinforcing innovative and tightening management, so as to continuously enhance its abilities of servicing and creating value for customers, with the aim of speeding up the cultivation and building of our featured competitive strengths. Specifically, we shall focus on the following works:

The Company will promote the in-depth implementation of our full-asset class operation strategy and further strengthen and give full play to our strengths to continuously portray unique competitiveness; make clear the strategic direction for corporate business, and reconstruct the macro management system such as the customer strategy, industry strategy, region strategy, marketing system etc.; further capitalize on the profitability and strategy of small-size business to maintain the leading position in the industry; advance the rapid development of retail trade through new thinking and new approach to construct the new retail system.

The Company will focus on the construction of customer base and constantly optimize the structures of customer and business; deepen the building of a bank that provides corporate liquidity services and full-value-chain services; with leading private enterprises listed or seeking to be listed as the strategic customers, continue to foster and display the competitive strengths in terms of liquidity services and capital market business, and provide and cultivate tracking services of developing private corporate, to continuously create values for customers and grow with them together.

The Company will be centralized on and take appropriate steps for its customers to speed up the innovation of products and services; further enhance the construction of innovative system and improve the vitality of distributed innovation to possess the flexible and changing innovation capability. Based on the changing demands of markets and customers, the Company will strengthen resources consolidation, expedite the upgrading and updating of existing competitive products, improve the competitiveness in the market and make persisting exploitation of new products and models to continually satisfy new demands from customers. We will insist on the financial essence and actively make innovative use of financial technology to accelerate the digital construction.

The Company will reinforce the operation-oriented full-asset and liability management; establish the macroscopic view of asset and liability management; improve the overall planning of asset and liability management and financial management; enhance the flexibility of asset and liability management, and flexibly and orderly adjust the size and structure of liability based on the market change; further strengthen the assessment-oriented role and boost the efficiency of resource allocation and use.

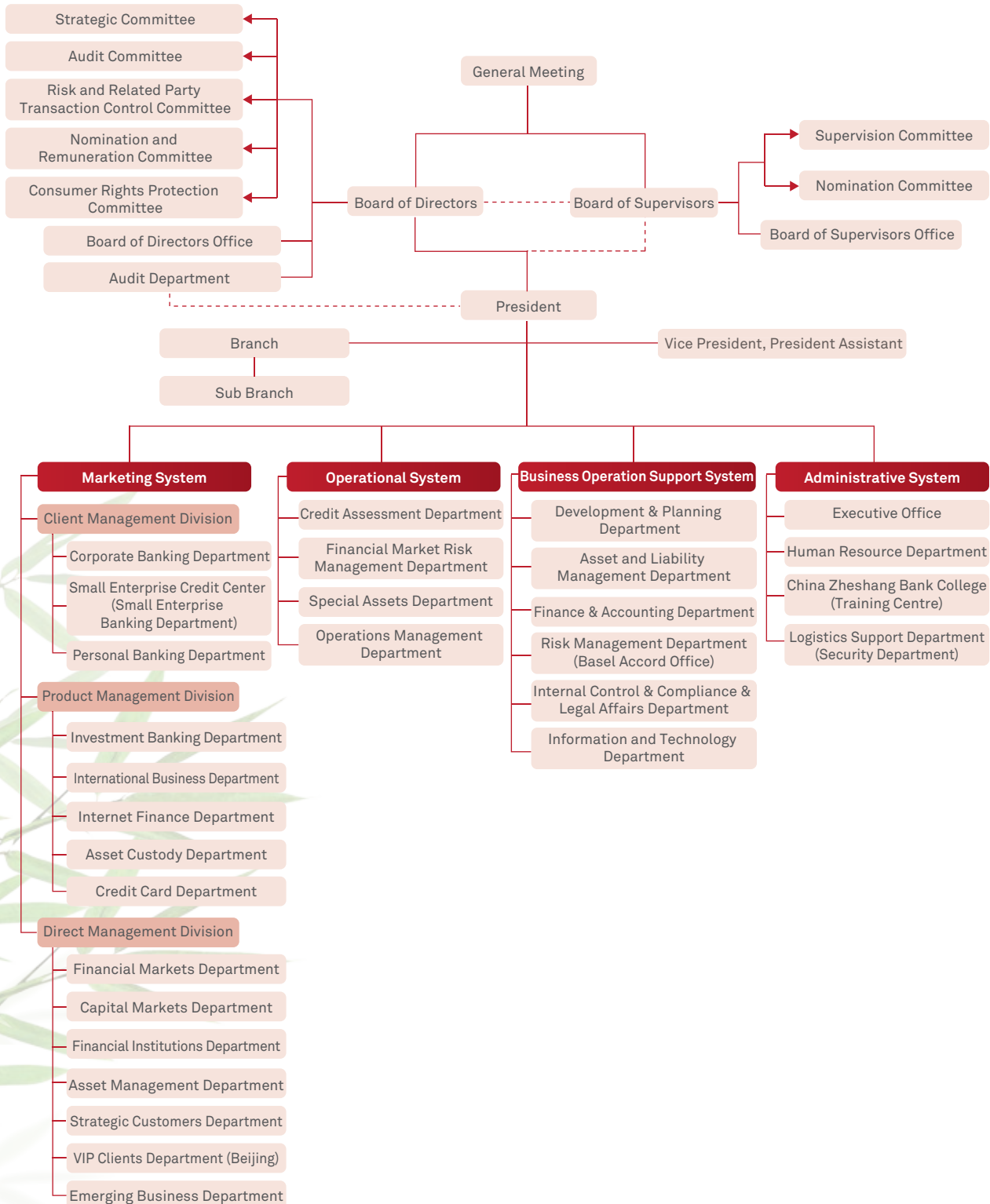
Management Discussion and Analysis

The Company will complete the comprehensive risk management system with independence and counterbalance, and overall raise the concept and ability of risk management; constantly perfect the risk management system which adapts to the new business development, and maintain the dependence and authority of risk management; adhere to the Authorization constraints, process constraints, department constraints and whole-process management, and give a full play to three lines of defense in terms of the risk control and management; pay high attention to liquidity and market risks; enhance the compliance operation to advance the regulated development of business.

The Company will promote the cultural integration and improve the management to provide the strong warranty for rapid development; enhance the construction of corporation culture, care for the employees' development and build a team with cohesion and fighting capacity; put the management in a more prominent position and raise the management capacity based on problem orientation by solving problems; establish a sound systematic management system to strengthen the fact that the system shall perform management.

Corporate Governance

(I) CHART OF ORGANIZATIONAL STRUCTURE



(II) OVERVIEW OF CORPORATE GOVERNANCE

The Company is a joint-stock commercial bank based on private capital investment. It is committed to regulating its operation and enhancing its corporate governance. The Company has established a corporate governance structure composed of the independently-operated general meeting, Board of Directors, Board of Supervisors and senior management according to the relevant laws, regulations and regulatory requirements, such as the Company Law, the Commercial Banking Law, the Corporate Governance Guidance for Commercial Banks issued by CBRC and Hong Kong Listing Rules. The governance bodies of the Company operate independently, cooperate with each other and effectively check and balance one another to ensure coordinated operation of the Company.

The year 2016 is the first year of the Company operating as a listed company. During the year, the Board of Directors was striving to establish a corporate governance mechanism that features clear responsibility boundaries, orderly balancing and collaboration, democratic and scientific decision-making as well as normalized and efficient operation, with legal compliance of corporate governance as the bottom line, making reference to best practice of excellent companies as the direction, optimizing corporate governance system as the basis, and the Board of Directors playing the decision making role as the core.

As a new member of the companies listed on Hong Kong Stock Exchange, the Company has constantly paid attention to the legal compliance requirements for corporate governance as promulgated in the place where it is listed. Making reference to the advanced experience of mature listed companies in this industry, the Company has gone through its governance system thoroughly and systematically, and made reasonable adjustment to relevant matters in a timely manner, including adoption of a series of comprehensive internal systems such as the Articles of Association and the rules of procedure for the “General Meeting, Board of Directors, Board of Supervisors and Senior Management” that meets the governance principle and requirements for listed companies, in compliance with relevant laws, regulations and regulatory requirements. Meanwhile, the Company has optimized the communication mechanism for the “General Meeting, Board of Directors, Board of Supervisors and Senior Management”, established harmonious tier interaction system, adjusted the composition of the Board of Directors, Board of Supervisors and Senior Management, promoted the effective implementation of all asset management strategy, prepared and released a series of measures and documents such as the Securities Trading Policy for Directors, Supervisors and Employees of China Zheshang Bank Co., Ltd., Diversification Policy of the Board of Directors of China Zheshang Bank Co., Ltd., and Communications Policy for the Shareholders of China Zheshang Bank Co., Ltd. and has proposed a full series of policy framework regarding corporate governance matters. Furthermore, the Company has engaged insurance brokerage companies to purchase liability insurance in due time for all Directors, Supervisors and members of the Senior Management, so as to effectively prevent relevant personnel’s risks in duty performance. The Company has also established a meeting mechanism for the Chairman of the Board to meet separately with non-executive Directors and independent non-executive Directors, to obtain more omni-directional and objective judgment and opinions. All Directors and Supervisors have performed their duties conscientiously, diligently and responsibly, paid constant attention to the Company’s business conditions, and actively participated in the various affairs concerning corporate governance. The independent non-executive Directors have also given independent opinions on material matters.

Corporate Governance

The meetings held during the reporting period were as follows: one annual general meeting, one extraordinary general meeting, one domestic shareholders' class meeting, one H shareholders' class meeting; six meetings of Board of Directors, three meetings of Strategic Committee, three meetings of Audit Committee, nine meetings of Risk and Related Party Transaction Control Committee, three meetings of Nomination and Remuneration Committee; eight meetings of the Board of Supervisors, three meetings of Supervision Committee and six meetings of Nomination Committee.

(III) GENERAL MEETING

According to the Articles of Association, the general meeting shall be the Company's organ of power and exercise management and supervision function over the Company through the Board of Directors and the Board of Supervisors. The Company convenes and holds the general meeting strictly according to the relevant laws and regulations and the Articles of Association, ensuring that all shareholders fully and equally enjoy the right to know, the right to speak, the right to raise questions, the right to vote and other rights.

The Company held the annual general meeting for 2015 on June 15, 2016, and held the first extraordinary general meeting for 2016, the 2016 First Class Meeting for Domestic Shareholders, and the 2016 First Class Meeting for H Shareholders on October 17, 2016. For details of the relevant proposals, please refer to the circulars for the general meetings issued by the Company on its website and the website of Hong Kong Stock Exchange. The Chairman of the meetings has explained the detailed procedure for voting by poll to the Shareholders at the general meetings. The convening, notifying, holding and voting procedures for the meetings are in compliance with the relevant provisions of the Company Law, the Hong Kong Listing Rules and the Articles of Association. The announcements on the poll results of the meetings were published on the websites of Hong Kong Stock Exchange and the Company. Lawyers were invited to witness onsite and provide legal opinions for the meetings.

(IV) BOARD OF DIRECTORS

1. Composition of the Board of Directors

As of the end of the reporting period, the Board of Directors was composed of 17 Directors, including four executive Directors: Mr. Shen Renkang, Mr. Liu Xiaochun, Ms. Zhang Luyun and Mr. Xu Renyan; seven non-executive Directors: Mr. Wang Mingde, Ms. Wang Yibing, Ms. Shen Xiaojun, Ms. Gao Qinrong, Mr. Hu Tiangao, Ms. Lou Ting and Mr. Zhu Weiming; and six independent non-executive Directors: Mr. Jin Xuejun, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai and Mr. Zheng Jindu. Not less than 1/3 of the members of the Board of Directors were independent non-executive Directors and the number and composition are in compliance with relevant laws, regulations and requirements for listed companies.

The Board of Directors was rationally structured with experienced members. The executive Directors are diligent, professional and efficient, while the non-executive Directors are equipped with rich banking or enterprise management experiences, and the independent non-executive Directors' knowledge and background covering various areas including economy, finance, securities, accounting and law.

During the reporting period, all Directors adequately performed their duties and devoted enough time and efforts to deal with the affairs of the Company. They also paid continuous attention to the operation of our business and actively participated in the affairs of the Board, and provided professional and prudent advices on major issues to contribute to the development of the Board from their respective disciplinary angles. The Company has continued to improve the scientificity and efficiency of decision-makings by the Board on the premise that the business practices of the Company comply with national laws, regulations and regulatory requirements. At the same time, the Company has preliminarily established a shareholder interest protection system in order to treat all Shareholders fairly and impartially and effectively protect the legal interests of the Shareholders.

2. Diversification Policy for the Board of Directors

In order to achieve diversification of the Board, the Company has formulated the Diversification Policy for the Board of Directors of China Zheshang Bank Co., Ltd. according to the relevant provisions of the Hong Kong Listing Rules. It is expressly provided in the Policy that the Board of Directors shall consider various aspects and diversified factors when determining the composition of the Board, including but not limited to gender, age, culture and educational background, professional experience, skills, knowledge and/or service period. The Company will also consider its own business model and other specific needs, as well as the balance between executive and non-executive Directors from time to time.

The Policy for the Diversified Composition of the Board of the Company comprises of chapters such as purpose, philosophy, policy statement, expected objective, supervision and reporting, with the main purpose of recognizing and accepting the philosophy of building a diversified Board to strengthen the execution of the Board, and affirming the importance of diversified Board to achieve strategic objectives and sustainable development. During the reporting period, the geographical distribution, educational background and professional experience of members of the Board are relatively diversified. Among the incumbent 17 Directors, five of them are female, and 11 are with graduate and above diploma, including two with doctoral diploma and one director ordinarily residing in Hong Kong. The diversified composition of the Board brings a broad vision and a high level of professional experience to the Board and maintains an independent element within the Board to ensure that the Board of the Company is able to effectively make independent judgments and scientific decision in when studying and considering material issues.

3. Responsibilities of the Board of Directors

According to the Articles of Association, the Board of Directors is the decision-making organ of the Company and shall undertake ultimate responsibility for the operation and management of the Company. Its main responsibilities are as follows: to convene general meetings, present proposals and report to shareholders at the general meetings; to implement the resolutions of the general meetings; to formulate medium and long-term development plans and development strategies of the Bank and supervise the implementation of such development plans and development strategies; to decide the annual appraisal indexes for the operation of the Bank and approve the annual operation plans of the Bank; to formulate our annual financial budgets and final accounts; to formulate our profit distribution plans and plans for recovery of losses; to formulate proposals for increase or decrease of our registered capital, issuance of shares or bonds with the capital replenishment nature; to decide on issuance of bonds other than those with the capital replenishment nature by the Bank; and to formulate proposals for merger, demerger, dissolution and liquidation of the Bank.

The Board is responsible for carrying out the corporate governance functions and has fulfilled their duties and responsibilities, as set out in Code Provision D.3.1 of the Corporate Governance Code. During the reporting period, the Board and its committees reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and disclosures in the Corporate Governance Report, reviewed and monitored the training and continuous professional development of Directors and senior management, strengthened the Company's risk management and internal control, and further enhanced the Company's corporate governance policy and practices.

4. Meetings and proposals of Board of Directors

During the reporting period, the Company held six meetings of Board of Directors, among which five were held onsite and one was conducted by circulation of written resolutions. The following proposals were mainly considered at the Board meetings:

- Development Planning for 2016 to 2020 of China Zheshang Bank Co., Ltd.
- Proposal on H Shares Prospectus and Related Documents of China Zheshang Bank Co., Ltd.
- Proposal on Arrangement of Global Offering of H Shares of China Zheshang Bank Co., Ltd.
- Proposal on Establishment of Consumer Rights Protection Committee under the Board of Directors
- Work Report of the Board of Directors of China Zheshang Bank for 2015
- Work Report of President of China Zheshang Bank for 2015
- Financial Account Report of China Zheshang Bank for 2015
- Profit Distribution Scheme of China Zheshang Bank for 2015
- Business Operation Plan of China Zheshang Bank for 2016
- Financial Budget Report of China Zheshang Bank for 2016
- Internal Audit Work Report of China Zheshang Bank for 2015
- Report on Implementation of Related Party Transaction Management Measures and Particulars of Related Party Transactions of China Zheshang Bank for 2015
- Proposal on Result of Director Performance Appraisal by the Board of Directors of China Zheshang Bank for 2015
- Proposal on Issuance of Renminbi Financial Bonds
- Proposal on Report of Implementation Planning for the New Capital Agreement of China Zheshang Bank
- Proposal on Implementation Management Measures for the New Capital Agreement (2016) of China Zheshang Bank
- Proposal on Establishment of Head Office Business Center of China Zheshang Bank
- Proposal on Establishment of China Zheshang Bank College (浙銀大學)

5. Attendance of Directors at the Meetings

The following table sets forth the records of attendance of each director at the meetings convened by the Board of Directors and by special committees under Board of Directors and at the shareholders' general meetings held in 2016.

Director	Board of Directors	Strategic committee	Audit committee	Risk and related transaction control committee	Nomination and remuneration committee	General meeting
Executive Directors						
Shen Renkang	6/6	3/3	-	-	-	2/2
Liu Xiaochun	6/6	3/3	-	-	-	2/2
Zhang Luyun	5/6	-	-	-	-	2/2
Xu Renyan	5/6	-	-	-	-	2/2
Non-executive Directors						
Wang Mingde	6/6	3/3	-	-	-	2/2
Wang Yibing	6/6	-	-	-	-	2/2
Shen Xiaojun	6/6	-	3/3	-	-	2/2
Gao Qinhong	5/6	-	-	7/9	-	2/2
Hu Tiangao	5/6	-	2/3	-	-	2/2
Lou Ting	4/6	3/3	-	-	-	1/2
Zhu Weiming	1/1	-	-	-	-	-
Independent non-executive Directors						
Jin Xuejun	6/6	-	3/3	-	3/3	2/2
Tong Benli	5/6	-	3/3	8/9	3/3	2/2
Yuan Fang	4/6	-	2/3	9/9	-	2/2
Dai Deming	5/6	2/3	-	-	-	1/2
Liu Pak Wai	5/6	3/3	-	-	-	1/2
Zheng Jindu	5/6	-	-	-	3/3	2/2
Resigned Directors						
Wei Dongliang	3/3	-	-	-	-	1/1
Zheng Xinli	0/1	1/1	-	-	-	-

Notes:

- (1) Times of attention in person/number of meetings that he/she should attend during the reporting period.
- (2) The above Directors who did not attend the meetings in person had appointed other Directors to attend such meetings on their behalf.
- (3) The first extraordinary general meeting for 2016, the 2016 first class meeting for domestic shareholders and the 2016 first class meeting for H shareholders held on October 17, 2016 have been counted as one general meeting.
- (4) On August 19, 2016, the Company held the sixth meeting of the fourth session of the Board of Directors, at which the Proposal on Establishing the Consumer Rights Protection Committee of the Board was considered and approved, to establish the Consumer Rights Protection Committee under the Board. During the reporting period, the Consumer Rights Protection Committee didn't hold any meetings.
- (5) The Chairman held a meeting with non-executive Directors (including independent non-executive Directors) without the attendance of executive Directors.

6. Information on Survey and Training of the Directors

During the reporting period, the Board of Directors organized several site visits and surveys on branches such as Nanjing Branch, Chongqing Branch, Chengdu Branch, Wuhan Branch, Lishui Branch and Wenzhou Branch, listened to the reports by the grassroots on operation management, strategy implementation and risk management, etc., put forward targeted guiding opinions, and reverted in a timely manner the branches' opinions and suggestions to the Senior Management.

The Company has attached importance to continuous training of Directors, so as to ensure that all Directors can properly understand our Company's operation and business and can understand their responsibilities under the requirements of CBRC, CSRC, Hong Kong Stock Exchange, Articles of Association and other relevant laws and regulations. After the Company was listed, the Board of Directors has further enhanced the aforementioned work. In addition to increasing the training frequency, it has given greater priority to the improvement in training level, which has benefited the overall enhancement of all directors' ability to perform duties. During the reporting period, members of the Board of Directors successively participated in lectures themed with the "Global secular stagnation and China's macro financial situation" and "Structural reform in new economic normality and financial supply side", as well as training delivered by insurance and brokerage companies on Directors' risks in duty performance and liability insurance, etc., with the aim of effectively broadening their horizon of macro decision-making, strengthening their capacity of interpreting major policies, and consolidating the intellectual capital of the Board of Directors.

According to the training records for 2016 kept by the Company, the status of relevant trainings for Directors is as follows:

Directors	Provision of Information and Scope of Trainings		
	Corporate Governance	Finance/ Business	Compliance/ Operation
Executive Directors			
Shen Renkang	✓	✓	✓
Liu Xiaochun	✓	✓	✓
Zhang Luyun	✓	✓	✓
Xu Renyan	✓	✓	✓
Non-executive Directors			
Wang Mingde	✓	✓	✓
Wang Yibing	✓	✓	✓
Shen Xiaojun	✓	✓	✓
Gao Qinhong	✓	✓	✓
Hu Tiangao	✓	✓	✓
Lou Ting	✓	✓	✓
Zhu Weiming	✓	✓	✓
Independent non-executive Directors			
Jin Xuejun	✓	✓	✓
Tong Benli	✓	✓	✓
Yuan Fang	✓	✓	✓
Dai Deming	✓	✓	✓
Liu Pak Wai	✓	✓	✓
Zheng Jindu	✓	✓	✓

7. Performance of Independent Non-executive Directors

As of the end of the reporting period, the Company had six independent non-executive Directors, meeting the number and percentage requirements of CBRC, CSBC and Hong Kong Listing Rules. The Audit Committee, Risk and Related Party Transaction Control Committee, and Nomination and Remuneration Committee under the Board were all chaired by independent non-executive Directors, and the Independent non-executive Directors formed majority in the three committees. During the reporting period, the Independent non-executive Directors actively participated in and provided suggestions and advices at the meetings of Board of Directors and the special committees to make effective contribution. Besides, they maintained effective communication with the Company through various means, including site visits, special surveys and attending trainings.

The independent non-executive Directors have presented their professional advice on the resolutions considered by the Board of Directors, including offering independent written opinions on significant matters, such as the Profit Distribution Scheme, the appointment of senior management, the engagement of auditors and major related party transactions. In addition, for the special committees under the Board of Directors, the independent non-executive Directors made full advantage of their professional edge, provided professional and independent advice regarding corporate governance and operation management of the Company, and thereby ensured the scientific decision-making of the Board of Directors.

The Company has received the annual confirmations from the Independent non-executive Directors according to Rule 3.13 of Hong Kong Listing Rules regarding their independence, and considered that the Independent Non-Executive Directors were not involved in any factor set out in Rule 3.13 of Hong Kong Listing Rules that may cast doubt on their independence.

8. Responsibilities of Directors in Preparation of Financial Reports

The Directors of the Company acknowledged that they were responsible for preparing the financial report of the Company for the year ended December 31, 2016.

The Directors shall review and confirm the financial reports for each accounting period, so as to ensure that the financial reports truly and fairly reflect the financial status, operation results and cash flow of the Company.

When preparing the financial report for the year ended December 31, 2016, the Directors adopted and applied suitable accounting policies and made prudent and reasonable judgment.

9. Election, change and removal of Directors

According to the Articles of Association of the Company, the Directors shall be elected or replaced at the general meeting and shall each serve a term of three years. Directors may, after expiry of their term of office, hold a consecutive term upon re-election. A director, before his term of office expires, shall not be dismissed by the general meeting without any cause. The term of a Director shall start from the date on which the said Director assumes office to the expiry of the current session of the Board.

Corporate Governance

A director may be removed by an ordinary resolution at a general meeting before the expiry of his/her term of office in accordance with relevant laws and regulations (however, any claim which may be made under any contract will not be affected).

For the change of Directors during the reporting period, please refer to “Directors, Supervisors, Senior Management, Employees and Institutions”.

(V) SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS

There are five special committees under the Board of Directors of the Company, including Strategic Committee, Audit Committee, Risk and Related Party Transaction Control Committee, Nomination and Remuneration Committee and Consumer Rights Protection Committee.

1. Strategic Committee

As of the end of the reporting period, the Strategic committee of the Company consisted of six Directors. Mr. Shen Renkang, chairman and executive Director of the Board, served as the committee chairman. Mr. Liu Xiaochun, vice chairman and executive Director of the Board, and Mr. Wang Mingde, vice chairman and non-executive Director of the Board, served as the vice committee chairman. Other committee members included Mr. Dai Deming, independent non-executive Director, Mr. Liu Pak Wai, independent non-executive Director and Ms. Lou Ting, non-executive Director.

According to the Articles of Association, the main duties of the Strategic committee are as follows: to research and formulate business targets, medium and long-term development plans and development strategies of the Company; to supervise and inspect the implementation of annual business plans and investment plans; and to deal with other matters as authorized by the Board.

During the reporting period, the Strategic Committee mainly considered the Financial Account Report for 2015, Profit Distribution Scheme for 2015, Business Operation Plan for 2016, Financial Budget Report for 2016, Development Planning for 2016 to 2020 and other proposals or reports.

2. Audit Committee

As of the end of the reporting period, the Audit Committee of the Company consisted of five Directors. Mr. Jin Xuejun, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Tong Benli, independent non-executive Director, Mr. Yuan Fang, independent non-executive Director, Ms. Shen Xiaojun, non-executive Director, and Mr. Hu Tiangao, non-executive Director.

According to the Articles of Association, main duties of the Audit Committee are to examine our accounting policies, financial position, financial reporting procedures, and risk and compliance status; to propose the appointment or replacement of external auditors; to supervise our internal audit system and its implementation; to facilitate communication between internal auditors and external auditors; to review our financial information and the related disclosure and prepare conclusive reports on the authenticity, accuracy, completeness and timeliness of the audited financial reports to be submitted to our Board of Directors for consideration; to deal with other matters as prescribed by relevant laws, regulations, departmental rules and regulations of the securities regulatory authority in the jurisdiction(s) where the Company's shares are listed and as authorized by the Board of Directors.

During the reporting period, the Audit Committee mainly considered the Annual Report for 2015, Internal Audit Work Report for 2015, Proposal on Employing Accounting Firm for the Auditing of the Bank for 2016, Interim Report for 2016 as well as other proposals or reports. The Audit Committee also reviewed the independence of external auditors and provided recommendations to the Board on the appointment of external auditors, and approved the audit fees of external auditors for 2016.

3. Risk and Related Party Transaction Control Committee

As of the end of the reporting period, the Risk and Related Party Transaction Control Committee of the Company consisted of three Directors. Mr. Yuan Fang, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Tong Benli, independent non-executive Director, and Ms. Gao Qinhong, non-executive Director.

According to the Articles of Association, main duties of the Risk and Related Party Transaction Control Committee are to supervise the risk control by senior management of the Company; to assess our risk profile; to offer proposals on improving our risk management and internal controls; to review and approve general related party transactions of the Company or accept the filing of general related party transactions; to review and approve of major related party transactions of the Company or the transactions which are subject to reporting, announcement and/or independent shareholders' approvals under the relevant stipulations of securities regulatory authority of listing location of the Company, which shall be submitted to the Board of Directors by the committee for approval; and to deal with other matters as authorized by the Board.

The Risk and Related Party Transaction Control Committee will review the effectiveness of the Company's risk management procedures and internal control procedures, to ensure the efficiency of the Company's business operations and achieve the Company's objectives and strategies.

During the reporting period, the Risk and Related Party Transaction Control Committee primarily examined Report on Implementation of Related Party Transaction Management System and Particulars of Related Party Transactions for 2015, Risk Preference Management Scheme, Report on Internal Control Appraisal for 2015, Reporting and Execution Procedures for Related Party Transactions as well as other proposals or reports.

4. Nomination and Remuneration Committee

As of the end of the reporting period, the Nomination and Remuneration Committee of the Company consisted of three Directors. Mr. Tong Benli, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Jin Xuejun, independent non-executive Director, and Mr. Zheng Jindu, independent non-executive Director.

According to the Articles of Association, main duties of the Nomination and Remuneration Committee are to propose to the Board on the membership of the Board based on the business operations, asset size and equity structure of the Company; to draft the standard and procedure for the selection of Directors and senior management, and propose the same to the Board; to recommend candidates for Chairman and Vice Chairman to Board of Directors, and provide review comments on the candidates of Directors and senior management members including the President, Vice President, Financial Principal, Secretary to the Board and etc; to draft the remuneration policy and scheme for Directors and senior management, and make proposals to the Board; and to deal with other matters as prescribed by relevant laws, administrative regulations, departmental rules and regulations of the securities regulatory authority in the jurisdiction(s) where the Company's shares are listed and as authorized by the Board of Directors.

The Nomination and Remuneration Committee under the Board makes recommendations to the Board on the remuneration package of individual executive directors and senior management.

The nomination procedures for a director candidate of the Company are: the eligible shareholders will recommend candidates for directorship to the Company for consideration; the Nomination and Remuneration Committee will conduct examination of such candidates for directorship and then make recommendations to the Board; following consideration and approval of the Board, the candidates for directorship will be submitted in the general meeting by written resolutions.

During the reporting period, the Nomination and Remuneration Committee mainly considered the Diversification Policy of the Board of Directors, Qualifications of Directors and Senior Management, 2015 Remuneration Scheme for Senior Management, Measures for Performance Appraisal and Rewards & Punishments of Senior Management for 2016 as well as other proposals or reports.

The Nomination and Remuneration Committee has established a policy on Directors' remuneration and regularly evaluated the performance of the executive Directors and approved the terms of service contracts of executive Directors. In addition, The Nomination and Remuneration Committee has implemented the policies on the nomination of directors as well as the nomination procedures and selection and recommendation criteria on candidates for directors. The Nomination and Remuneration Committee has reviewed the structure, number and composition of the Board (including skills, knowledge and experience) once during the reporting period to make recommendations on any changes proposed on members of the Board for the purpose of cooperating with the long-term strategies of the Company.

5. Consumer Rights Protection Committee

On August 19, 2016, the Company held the sixth meeting of the fourth session of the Board of Directors, at which the Proposal on Establishing the Consumer Rights Protection Committee of the Board was considered and approved, to establish the Consumer Rights Protection Committee under the Board. In order to streamline institutions and improve efficiency, the composition of the committee is consistent with the composition of the Risk and Related Party Transaction Control Committee of the Board, to perform the duties of the Board in the protection of consumer rights.

(VI) BOARD OF SUPERVISORS

The Board of Supervisors is a supervisory body of the Company and is accountable to the general meetings, and oversees the strategic planning, business decisions, financial activities, risk management, internal control and corporate governance of the Company, and the duty performance of the Directors and the senior management with an aim to protect the legitimate rights and interests of the Company, its shareholders, employees, creditors and other stakeholders.

1. Composition of Board of Supervisors

The Board of Supervisors of the Company consists of 13 members, of which the four shareholder representative Supervisors are from large enterprises where they have extensive experience in business management and professional knowledge in finance; the four employee representative Supervisors have long participated in banking operation and administration, and thus accumulated rich professional experience in finance; and the five external Supervisors have been engaged in finance, economics, accounting, taxation, international trade, etc., and have thus accumulated extensive experience in those fields and unique perspectives. The composition of the Board of Supervisors of the Company has adequate expertise and independence which ensures the effective supervision by the Board of Supervisors.

2. Performance of Board of Supervisors

The Board of Supervisors discharges its supervisory duties primarily by the following several ways: holding regular meetings, attending shareholders' general meetings, board meetings and special committee meetings; attending related meetings on operation and management held by the senior management; reviewing related work reports of the senior management and department; making performance appraisal on Directors or senior management; reviewing various documents, information and statements of the Company; carrying out special investigations and surveys at branches; put forward to work suggestions to the Board of Directors and senior management; appointed third-party professional agency to carry out special audit or verification & evaluation, etc.

During the reporting period, the Board of Supervisors convened eight meetings, of which six were on-site meetings and two were correspondence meetings. 17 proposals regarding development plans, business operations, risk management, financial activities, internal control, internal audit, corporate governance, annual report and evaluation of the duty performance of the Directors, Supervisors and senior management were considered, nine reports were reviewed, and five work arrangements were researched and discussed.

Corporate Governance

According to the provisions of relevant laws, regulations and the Articles of Association of the Company, the supervisors attended all general meetings, on-site meetings of the Board of Directors, three meetings of some special committees under the Board of Directors, and performed supervision on legal compliance of holding general meetings and Directors' meetings, the procedure for voting by poll as well as the Directors' attendance of meetings, providing opinions and voting, etc.

During the reporting period, the Board of Supervisors of the Company had no objection to the matters supervised.

3. Information on Survey and Training of Supervisors

During the reporting period, the Board of Supervisors carried out survey activities for seven times. It paid visits to Guangzhou Branch, Hangzhou Branch, Chengdu Branch, Wenzhou Branch, Taizhou Branch, Quzhou Branch and Lishui Branch etc. for the purpose of survey, so as to get a further understanding of their implementation of the head office's development strategy, operation management, especially risk management, and work suggestions, etc. Through the survey, the Board of Supervisors objectively analyzed the operation management of different branches in different economic environments, advanced suggestions on implementation of strategic transformation, enhancement of all-around risk management, intensification of internal control, and emphasis on team building, etc., and submitted such suggestions in a proper way to the Board of Directors and senior management for reference. The survey achievements have been fully applied.

During the reporting period, the Board of Supervisors organized and attended training for 5 times in terms of China's macro financial situation, economic situation, financial reform, structural reform in supply side, China's current economic and financial situation, supervisory policies for risk management in banking industry and acquisition & reorganization of listed companies, and guarantee for Directors' liability insurance, etc.

(VII) SPECIAL COMMITTEES UNDER BOARD OF SUPERVISORS

A Supervision Committee and a Nomination Committee are established under the Board of Supervisors of the Company. The Supervision Committee and the Nomination Committee consisted of five Supervisors and four Supervisors, respectively and the external Supervisor served as the committee chairman.

1. Supervision Committee

The members of the Supervision Committee: Mr. Yuan Xiaoqiang (committee chairman), Mr. Tao Xuegen, Mr. Zhou Yang, Mr. Zhang Rulong and Mr. Wang Jun.

Main duties of the Supervision Committee: to be responsible for drafting plans of supervision on the financial activities of the Company and conducting relevant inspections; to supervise the Board of Directors' adoption of prudent business philosophy and value standards and formulate development strategies in line with the actual situations of the Company; to regularly evaluate and report on the scientificity, rationality and effectiveness of the development strategies formulated by the Board of Directors for compilation of evaluation

reports; to instruct the work of the internal audit department of the Company; to carry out a review of any resigning senior management when necessary; to supervise the duty performance by Directors, Supervisors and senior management; to supervise and inspect major operational decisions of the Company; to supervise and inspect risk management of the Company; to supervise and inspect the soundness and effectiveness of the internal control of the Company; and to deal with other matters as authorized by the Board of Supervisors.

During the reporting period, the Supervision Committee held three meetings. It considered the Annual Report for 2015 of the Company, Internal Audit for 2015, Interim Report for 2016, and External Audit System of the Board of Supervisors, etc., and listened to the report on the Company's financial position in 2015, etc. Moreover, the members of the Supervision Committee also attended three on-site meetings of the Risk and Related Party Transaction Control Committee under the Board of Directors and supervised the process of consideration on related party transactions and Directors' duty performance.

2. Nomination Committee

The members of the Nomination Committee: Mr. Jiang Zhihua (committee chairman), Mr. Dong Zhoufeng, Mr. Ge Lixin and Mr. Huang Zuhui.

Main duties of the Nominations Committee: to draft standards and procedures of electing and appointing Supervisors; to recommend qualified candidates of external Supervisors; to make an initial evaluation on the qualifications of candidates of shareholder representatives serving as Supervisors and external Supervisors and give suggestions to the Board of Supervisors; to propose to the Board of Supervisors candidates of chief Supervisor and deputy chief Supervisor based on the actual condition of the Company; to propose to the Board of Supervisors candidates of chairmen of various special committees; to supervise the election and appointment of Directors; to draft remuneration plans for Supervisors, make proposals to the Board of Supervisors and supervise the implementation of the said plans after they have been considered by the Board of Supervisors and have been submitted to the general meetings for consideration; to supervise the scientificity and rationality of the remuneration system and policy of the whole Bank as well as the remuneration scheme of senior management; to be responsible for drafting measures for evaluating the duty performance of Directors, Supervisors and senior management, making proposals to the Board of Supervisors and implementing these measures after submitting them to the Board of Supervisors for consideration; to assist the Board of Supervisors office with the establishment of a duty performance supervision and recording system for Directors, Supervisors and senior management and complete the duty performance supervision records; and to deal with other matters as authorized by the Board of Supervisors.

During the reporting period, the Nomination Committee under the Board of Supervisors held six meetings. It mainly considered qualifications of Ms. Cheng Huifang and Mr. He Xudong as the Supervisors, appraisal results of duty performance of Directors, Supervisors and Senior Management for 2015, working system for external Supervisors, and appraisal arrangement on duty performance of Directors, Supervisors and Senior Management for 2016, etc.

Corporate Governance

(VIII) COMPANY OPERATION AND DECISION-MAKING SYSTEM

The general meeting is the Company's power organ which manages and supervises the Company through the Board of Directors and Board of Supervisors. The President is employed by the Board of Directors to take charge of the daily operation and management of the Company. The Company adopts the single legal person system. All the branches and sub-branches are non-independent accounting units. They carry out the operation and management activities according to the authorization of the headquarters and are accountable to the headquarters.

According to the Articles of Association, the Board of Directors exercises the functions and powers of appointing or dismissing the Bank's president, listening to the work report of the president and reviewing his performance, monitoring and ensuring the senior management's efficient fulfillment of management duties. The Company adopts a system by which the President shall assume overall responsibility in operation and management of the Company, and the President shall be accountable to the Board of Directors.

The Company has no controlling Shareholder. The Company and the Shareholders are completely independent in terms of assets, businesses, personnel, entities and finance, etc.. The Company has complete and independent operation capacity. The Board of Directors, the Board of Supervisors and internal units of the Company operate independently.

(IX) CHAIRMAN AND PRESIDENT

In the Company, the posts of Chairman and President are served by different persons, and each position has clearly defined responsibilities, meeting the requirements of Hong Kong Listing Rules. Mr. Shen Renkang serves as the Chairman of the Company and exercises his duties to preside over the general meetings, convene and preside over the meetings of Board of Directors and supervise and inspect the implementation of the resolutions of the Board of Directors. Mr. Liu Xiaochun is the President of the Company and exercises his duties to lead the operation and management of the Company, report to the Board of Directors and organize the implementation of the resolution of the Board of Directors, the annual operation plan and investment scheme of the Company.

(X) COMPANY SECRETARY

Mr. Liu Long is one of the joint company secretaries of the Company, while Mr. Wong Yat Tung, manager of SW Corporate Services Group Limited, is the joint company secretary meeting the relevant qualification requirements of Hong Kong Listing Rules. The company secretary is mainly responsible for facilitating the operation of the Board of Directors, ensuring the smooth communication between the members of the Board of Directors and the observation of the policies and procedures of the Board of Directors, and ensuring the compliance with Hong Kong Listing Rules and other regulations by the Company. Any Director can discuss with, seek advice from and obtain information from the company secretary. The main contact in the Company for Mr. Wong Yat Tung is Mr. Liu Long.

During the reporting period, both Mr. Liu Long and Mr. Wong Yat Tung have complied with the requirements of Rule 3.29 of Hong Kong Listing Rules.

(XI) SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS

The Company adopts a Code of Conduct for Securities Transactions by Directors and Supervisors no less exacting than the Model Code in the Appendix X of Hong Kong Listing Rules. The Company had inquired all the Directors and Supervisors and confirmed that they had been complying with the aforesaid Code during the period from the listing date of the Company (March 30, 2016) to December 31, 2016.

(XII) RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, family or other material/affiliated relationship between the Directors, Supervisors and senior management of the Company.

(XIII) SHAREHOLDER'S RIGHTS

The Shareholders shall enjoy the following rights in accordance with the Articles of Association:

1. To hold extraordinary general meeting

At the request of the Shareholders separately or jointly holding 10% or more of the total Shares, the Company shall hold an extraordinary general meeting within two months.

When the Shareholders request to convene an extraordinary general meeting or a Shareholders' class meeting, the following procedures shall be observed: the Shareholders separately or jointly holding 10% or more of the total Shares submit a written proposal to the Board of Directors and explain the meeting topics. The Board of Directors shall reply in written form within ten days after receiving the proposal as for agreeing or disagreeing to convene the extraordinary general meeting or a Shareholders' class meeting.

If the Board of Directors agrees to convene an extraordinary general meeting or a Shareholders' class meeting, a notice of convening the general meeting shall be sent within five days after the resolution made by the Board of Directors. Any change to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board of Directors does not agree to convene the extraordinary general meeting or a Shareholders' class meeting, or fails to reply within ten days after receiving the proposal, the Shareholders separately or jointly holding 10% or more of the total Shares have the right to propose to the Board of Supervisors to hold the extraordinary general meeting or a Shareholders' class meeting, provided that written request shall be submitted to the Board of Supervisors.

If the Board of Supervisors agrees to convene an extraordinary general meeting or a Shareholders' class meeting, the notice of convening the general meeting shall be sent within five days after the receipt of the request. Any change to the original proposal in the notice shall be approved by the relevant Shareholders.

Corporate Governance

If the Board of Supervisors fails to provide the notice of holding general meeting or a Shareholders' class meeting within the specified period, it shall be deemed that Board of Supervisors will not convene and preside over the general meeting or a Shareholders' class meeting, the Shareholders separately or jointly holding 10% or more of the total Shares may convene and preside over such meetings at their own discretion.

If the Board of Supervisors or the Shareholders decide to convene the general meeting, they shall notify the Board of Directors in writing and file with the local banking supervisory authorities and other regulatory authorities. The Board of Directors and the secretary to the Board of Directors shall cooperate. The Board of Directors shall provide the register of members as of the record date, and the reasonable cost required for the meeting shall be borne by the Company, which shall be deduced from the payment due to the default Directors.

2. To make proposal to the general meeting

The Shareholders separately or jointly holding 3% or more of the voting Shares have the right to make proposals to the general meeting.

The Shareholders separately or jointly holding 3% or more of the voting Shares may make temporary proposal and submit in written form to the convener ten days before the holding date of the general meeting or at least two days before the deadline for providing supplementary notice of general meeting as stipulated by Hong Kong Listing Rules (whichever is earlier). The convener shall issue the supplementary notice of the general meeting within two days after receiving the relevant proposal to disclose the contents of the temporary proposal.

3. To hold interim meeting of Board of Directors

At the request of the shareholders separately or jointly holding 10% or more of the total Shares, the chairman shall convene and preside over an interim meeting of Board of Directors within ten days after receiving the proposal.

4. To make inquiries with the Board of Directors

The shareholders have the right to obtain the relevant information according to the laws, regulations and Articles of Association. They can obtain the copies of the Articles of Association after paying the relevant costs. They have the right to access and copy the following information after paying reasonable fees: any and all parts of the share register; personal information of the Directors, Supervisors and senior management of the Company; the Company's equity status; the report of total par values, quantity, maximum price and minimum price of each class of shares repurchased by the Company since the last financial year as well as the total expenses the Company paid for this; meeting minutes of general meetings, resolutions of the meetings of Board of Directors, resolutions of the meetings of Board of Supervisors; bond stubs of the Company; the audited financial report, report of Board of Directors, report of Board of Supervisors, and report of auditors for the last fiscal period, the annual report for the last fiscal period that has been filed with the State Administration for Industry and Commerce and other regulatory authorities. For the contact details, please refer to "Company Profile" of this report.

(XIV) INVESTOR RELATIONS MANAGEMENT

The Company consistently makes good management on investor relations and promotes integration of market capitalization and intrinsic value. Aimed to maximize the investors' profit and protect their legitimate rights and interests, the Company forms a corporate cultural concept of serving and respecting investors and procures sound interaction between the Company and the investors, thereby enhancing investors' understanding and recognition on the Company.

During the reporting period, taking listing in Hong Kong as an opportunity, the Company strengthened market communication and introduction, and the conducted several management roadshows in America, Singapore, Hong Kong, Beijing and Shanghai. They made in-depth exchange with the investors and the analysts, timely answered the questions that investors concerned, and effectively expanded the coverage of the investors.

During the reporting period, the Company formulated and perfected the administrative measures for investor relations in accordance with the regulatory requirements of the listing place and practical experience, managed the investor relations in various forms, and consistently enhanced service level of investors. Through reverse roadshow, website of investor relations, telephone, e-mail and other means, the Company handled the events in connection with investor relations, timely answered and fed back the questions raised by the investors, which effectively procured the further understanding of investors and analysts on the Company's investment value and enhance the Company's influence at capital market.

Aiming to get more attention and recognition from investors, the Company consistently improves the management of webpage of investor relations, timely updates the content on the webpage, earnestly collects investor information, duly traces the reports from analysts, strengthens dynamic monitor of media opinions and actively learns about advice and proposals for the Company's operation and development from capital market.

(XV) IMPLEMENTATION OF INFORMATION DISCLOSURE

The Company always attaches importance to information disclosure, and strictly complies with various regulatory rules of the place where the Company is listed. On the basis of comprehensively and deeply learning various regulatory rules, the Company continuously sort out and perfect the implementation details of information disclosure management matter from the aspect of system structure and institutional level.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. The Company established information disclosure management system, which has identified the department responsible for inside information disclosures, to disclose information in a timely and compliant manner according to the requirements and procedures of the Hong Kong Listing Rules.

During the reporting period, the Company accurately, truly and completely disclosed various information in a timely manner, and a total of 69 announcements were released, which ensured that all Shareholders had equal opportunities to get relevant information of the Company, and enhanced the transparency of Company's governance.

Corporate Governance

(XVI) MAJOR CHANGES OF THE ARTICLES OF ASSOCIATION

Since its listing, the Company held the annual general meeting for 2015 on June 15, 2016. The resolution on the amendment to the Articles of Association was considered and passed at the meeting. In order to better improve its governance levels upon listing of H Shares, the Company amended the Articles of Association according to the relevant requirements of The Hong Kong Securities Clearing Company Limited, the needs of strengthening the Bank's related party transaction management, the CBRC Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks (中國銀監會關於加強商業銀行股權質押管理的通知) when considering the actual condition of the Company. For details of the amendments, please refer to the circular dated April 30, 2016 issued by the Company on the websites of the Company and Hong Kong Stock Exchange. The amendments were approved by CBRC on October 18, 2016.

The Company held the first extraordinary general meeting for 2016 on October 17, 2016. The resolution on the amendment to the Articles of Association was considered and passed at the meeting. In order to define the rights and obligations of holders of preference Shareholders, restrictions on and restoration of voting rights, conversion and repurchase of preference shares, distribution of profits from preference shares, and distribution of residual assets, etc., the relevant provisions of the Articles of Association were properly amended. For details of the amendments, please refer to the circular dated September 1, 2016 issued by the Company on the websites of the Company and Hong Kong Stock Exchange. The amendments were approved by CBRC on January 25, 2017, and will take effect on the date when the initial offering of offshore preference shares is completed.

(XVII) STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN HONG KONG LISTING RULES

The Company agrees to the principles of Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to Hong Kong Listing Rules. The Company has been in full compliance with the code provisions set out in the Code during the period from the listing date (March 30, 2016) to December 31, 2016.

(XVIII) RISK MANAGEMENT AND INTERNAL CONTROL

In accordance with the requirements of Commercial Banking Law, Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) and other laws and regulations, the Company has established standardized corporate governance structure and defined the scope of rights, responsibility assignment and rules of procedures for the general meeting, Board of Directors, Board of Supervisors and senior management. Such organizations as the Risk and Related Party Transaction Control Committee have been established under the Board of Directors to take charge of the establishment and implementation of sufficient and effective internal control system. The Supervision Committee has been established under the Board of Supervisors to take charge of the supervision on sufficiency and effectiveness of internal control systems of the Board of Directors and Senior Management. The Risk Management and Internal Control Committee has been established under the Senior Management to take charge of the organization and coordination of internal control management as well as establishment and improvement of the concept, system and organizational structure of internal control.

The Board is responsible for assessing and determining the nature and extent of bearable risks for the purpose of achieving the Company's strategic objectives, and maintaining sound and effective risk management and internal control system, so as to safeguard investments of shareholders and the Company's assets. The Company has strictly complied with the relevant requirements of the Hong Kong Listing Rules, established and continuously improved internal control and risk management system by taking account of the practical situation of the Company to provide reasonable (but not absolute) assurance against material misstatement or loss and manage rather than eliminate the risk of failure to achieve business objectives.

For more information of risk management and internal control of the Company, please see the section headed "Management Discussion and Analysis – Risk Management" in this annual report.

During the reporting period, the Company optimized its responsibilities for internal control, revised the responsibilities of the Risk Management and Internal Control Committee of the head office and the branches, and further defined the responsibilities for internal control management. Meanwhile, the Company constantly carried out internal control activities, enhanced risk identification and evaluation, kept on proper application of the off-site monitoring system and management system for problems facing regulation violation in internal control, and continuously improved the standardability of operation management activities carried out across the Bank. The Company strengthened the inspection of important businesses to prevent and eliminate various risks, improved the control of information system, and enhanced the guarantee for information safety and the ability to handle emergencies. Furthermore, the Company optimized the performance appraisal system, adjusted the remuneration management scheme, and improved the incentive and restraint mechanism and talent incentive guarantee mechanism. The Company also carried out education and training of employees, enhanced dynamic management of employees' behaviors, organized the implementation of supervision on duty performance at key posts, effectively improved employees' professional quality and awareness of internal control compliance, improved the internal control supervision responsibilities of business management department, internal control compliance department and audit department, and established the supervision and inspection system covering organizations at various levels, various products and business flows.

Corporate Governance

The Board of Director of the Company has annually performed self-evaluations on the effectiveness of risk management and internal control according to relevant supervision requirements. During the reporting period, the Company maintained the effectiveness of risk management and internal control in all significant aspects. No significant or major defects in the risk management and internal control were identified. The risks that may be caused by general defects won't be beyond our control and will not have a material effect on the Company's asset safety, realization of development strategy and operation goal, truth, accuracy and completeness of financial information, and effectiveness of risk management, etc., and therefore will not result in the Company's deviation from its control goal.

(XIX) EXTERNAL AUDITORS AND THEIR REMUNERATION

For the Company's external auditors and their remuneration, please see "Directors' Report – External auditors and their remuneration".

The responsibility statement of the Company's external auditors on its financial statements is set out in "Independent Auditor's Report" of this annual report.

(XX) INTERNAL AUDIT

We have established a dedicated internal audit department and implemented a vertical internal audit management system. The internal audit department independently performs the functions of audit supervision, evaluation and consultation, and is accountable and reports its work to the Board of Directors and the Audit Committee. The allocation on internal auditing personal meets the supervisory requirements and the audit team is stable. The training courses accepted by the auditing personal and the relevant budget are sufficient; and we have formulated an institutional system comprising the China Zhesang Bank Basic Internal Audit System (《浙商銀行內部審計基本制度》) and the China Zhesang Bank Internal Audit Standards (《浙商銀行內部審計準則》), as well as various examination methods including on-site and off-site audits.

The Company's audit department is responsible for supervising, inspecting and evaluating the operation management activities, risk profile and effectiveness of internal control across the Bank, timely reporting problems found in audit, advancing independent audit opinions and management suggestions, tracing and verifying the rectification of problems found in audit, and promoting the effective rectification of such problems.

During the reporting period, the Company's audit work was focused on the audit of branch presidents' economic responsibilities, audit of business units' internal control evaluation, and special audit of important business fields. Meanwhile, various working methods were adopted, including audit accountability and surprise audit. Oriented with risks, the Company highlighted audit emphasis, innovated in audit methods, gave full play to audit supervision functions, further promoted the improvement in its internal control and risk management levels, and promoted sound and steady development of various businesses across the Bank.

Changes in Shares and Information on Shareholders

(I) CHANGES IN SHARES

During the reporting period, changes in the Company's Shares were as follows:

Unit: Share, %

	December 31, 2015		Change in the number during the reporting period	December 31, 2016	
	Number	Proportion		Number	Proportion
Domestic Shares	14,509,696,778	100.00	-345,000,000	14,164,696,778	78.87
H Shares	-	-	+3,795,000,000	3,795,000,000	21.13
Total Shares	14,509,696,778	100.00	+3,450,000,000	17,959,696,778	100.00

Notes:

1. The Company was listed on Hong Kong Stock Exchange on March 30, 2016, and fully exercised over-allotment option on April 19, 2016. The number of offer shares in the global offering was 3,795,000,000 H shares (comprising 3,450,000,000 new H Shares offered by the Company and 345,000,000 sale shares sold by the selling Shareholders). The share capital of the company is 17,959,696,778 shares (comprising 14,164,696,778 domestic shares and 3,795,000,000 H shares) following the completion of the issuance.
2. As of the end of the reporting period, the Company had 27 holders of domestic Shares in total and 147 holders of H Shares in total.

Changes in Shares and Information on Shareholders

(II) SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

Unit: Share, %

No.	Name of shareholder	Nature of Shareholder	Change in the shares during the reporting period	Number of shares held at the end of period	Shareholding proportion	Class of Shares	Number of pledged shares
1	HKSCC Nominees Limited ⁽¹⁾ in which: Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	- State-owned Legal Person	+3,794,713,900 +1,000,000,000	3,794,713,900 1,000,000,000	21.13 5.57	H Shares H Shares	Unknown -
2	Zhejiang Provincial Financial Holdings Co., Ltd. ⁽²⁾	State-owned Legal Person	-241,110,781	2,655,443,774	14.79	Domestic Shares	-
3	Traveller Automobile Group	Domestic Non-State-owned Legal Person	-	1,346,936,645	7.50	Domestic Shares	310,000,000
4	Hengdian Group Holdings Limited	Domestic Non-State-owned Legal Person	-	1,242,724,913	6.92	Domestic Shares	143,169,642
5	Zhejiang Provincial Energy Group Co., Ltd. ⁽²⁾	State-owned Legal Person	-76,377,827	841,177,752	4.68	Domestic Shares	-
6	Minsheng Life Insurance Company Ltd. ⁽³⁾	Domestic Non-State-owned Legal Person	-	803,226,036	4.47	Domestic Shares	-
7	China Wanxiang Holding Co., Ltd. ⁽³⁾	Domestic Non-State-owned Legal Person	-	543,710,609	3.03	Domestic Shares	-
8	Zhejiang Yongli Industry Group Co., Ltd.	Domestic Non-State-owned Legal Person	-	518,453,371	2.89	Domestic Shares	518,453,371
9	Zhejiang RIFA Holding Group Co., Ltd.	Domestic Non-State-owned Legal Person	-	518,453,371	2.89	Domestic Shares	436,630,000
10	Zhejiang Hengyi High-tech Material Co., Ltd.	Domestic Non-State-owned Legal Person	-	508,069,283	2.83	Domestic Shares	-

Notes:

- (1) The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H shares which were trading in its transaction system.
- (2) The decrease in shares held by Zhejiang Provincial Financial Holdings Co., Ltd. and Zhejiang Provincial Energy Group Co., Ltd. was due to the conversion and reduction of stated-owned shares in the course of issuing H shares by the Company.
- (3) To the Company's knowledge, as of the end of the reporting period, among the Top 10 Shareholders listed above, China WanXiang Holding Co., Ltd. held 37.32% of Minsheng Life Insurance Company Ltd.. Save for the above, the Company is not aware of any connected relationship or concerted arrangement among the above Shareholders.

Changes in Shares and Information on Shareholders

(III) INTERESTS IN SHARES AND SHORT POSITIONS IN ACCORDANCE WITH THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of December 31, 2016, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	Domestic Shares	Long position	2,655,443,774	14.79	18.75
Zhejiang Province Financial Development Company	Interest of controlled corporation	Domestic Share	Long position	2,655,443,774	14.79	18.75
China WanXiang Holding Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Lu Weiding	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Traveller Automobile Group	Beneficial owner	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Shenzhen Xianglong Equity Investment Management Co., Ltd	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Jiang Jinsheng (蔣金聲)	Interests of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interests of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Qiu Jianlin	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Hengdian Group Holdings Limited.	Beneficial owner	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Hengdian Association For Economics Corporation	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Guangsha Holding Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.32	6.74
Lou Zhongfu	Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.32	6.74
Chen Xiabin	Interest of controlled corporation	Domestic Shares	Long position	880,546,358	4.90	6.22
Zhejiang Provincial Energy Group Company Ltd.	Beneficial owner	Domestic Shares	Long position	841,177,752	4.68	5.94
Minsheng Life Insurance Company Ltd.	Beneficial owner	Domestic Shares	Long position	803,226,036	4.47	5.67
Keqiao District Shaoxing China Light & Textile City Market Development & Operation Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.24	5.37
Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.24	5.37
Zhejiang Hengyi Petrochemical Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.17	5.28
Hengyi Petrochemical Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.17	5.28

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of total share capital(%)	Approximate percentage of the relevant class of shares (%)
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner	H Shares	Long position	1,000,000,000	5.57	26.35
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	497,934,000	2.77	13.12
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	497,934,000	2.77	13.12
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	497,934,000	2.77	13.12
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.39	6.59
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Liu Yaozhong	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership) (嘉興信業領信投資合夥企業(有限合夥))	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Shenzhen Qianhai Guangda Xikang Industry Fund Company (Limited Partnership) (深圳前海光大熙康產業基金企業(有限合夥))	Beneficial owner	H Shares	Long position	249,999,000	1.39	6.59
Zhuji Ruitong Machinery Technology Co., Ltd. (諸暨通瑞機械科技有限公司)	Beneficial owner	H Shares	Long position	208,202,000	1.16	5.49
Zhuji Yutian Corporate Management and Consultation Co., Ltd. (諸暨裕天企業管理諮詢有限公司)	Beneficial owner	H Shares	Long position	208,202,000	1.16	5.49
Hong Kong Bao Da Financial Holdings Limited	Beneficial owner	H Shares	Long position	207,760,000	1.16	5.47
Bao Da Financial International Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Great Sphere Developments Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
China Goldjoy Group Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Tinmark Development Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Yao Jianhui	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of total share capital(%)	Approximate percentage of the relevant class of shares (%)
SCBCN-Foreign Economy and Trade Trust Co., Ltd-Fotic Wuxingbaichuan No. 13 Unitrust	Beneficial owner	H Shares	Long position	199,037,000	1.11	5.24
Changan Assets-Yuhebaichuan Special Asset Management Plan	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
SCBCN-Foreign Economy and Trade Trust Co., Ltd-Fotic Yuhejingming Collective Trust Plan (Trust Unit of Phase X2)	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
China Yintai Investment Company Limited	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
Beijing Guojun Investment Company Limited	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
Shen Guojun	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
Shenwan Hongyuan Group Co., Ltd.	Beneficial owner	H Shares	Long position	195,000,000	1.09	5.14
China Jianyin Investment Limited	Interest of controlled corporation	H Shares	Long position	195,000,000	1.09	5.14
Central Huijin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	195,000,000	1.09	5.14

Save as disclosed above, the Company was unaware of any other person (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interest or short position as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO on December 31, 2016.

(IV) INFORMATION ON THE COMPANY'S LARGEST SHAREHOLDER

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 14.79% of the shares of the Company and was the Company's largest Shareholder.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with a registered capital of RMB12.0 billion, and is a financial investment management platform established by Zhejiang Provincial Government.

(V) ISSUE AND LISTING OF SECURITIES

The Company was listed on Hong Kong Stock Exchange on March 30, 2016 with the stock code of 2016, and fully exercised over-allotment option on April 19, 2016. The number of offer shares in the global offering was 3,795,000,000 H shares (comprising 3,450,000,000 new Shares offered by the Company and 345,000,000 sale Shares offered by the selling Shareholders); the offer price was HK\$3.96 per H Share, and the nominal value was RMB1.00 per H Share.

Changes in Shares and Information on Shareholders

(VI) ISSUE OF BONDS

On September 11, 2013, according to the approvals in the documents issued by CBRC (Yin Jian Fu [2012] No. 783) and People's Bank of China (Yin Shi Chang Zhun Yu Zi [2013] No. 46), The Company publicly issued China Zheshang Bank Co., Ltd.'s 2013 financial bonds of RMB1.5 billion in the national interbank bond market. This tranche of bonds have a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of subordinated bonds was AAA.

On March 10, 2014, according to the approvals in the documents issued by CBRC (Yin Jian Fu [2012] No. 783) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2013] No. 46), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2014 financial bonds of RMB4.5 billion in the national interbank bond market. This tranche of bonds have a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit 90 rating for this tranche of financial bonds was AAA.

On December 24, 2015, according to the approvals in the documents issued by CBRC (Yin Jian Fu [2015] No. 465) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2015] No. 307), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2015 financial bonds of RMB5.0 billion in the national interbank bond market. This tranche of bonds have a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On February 24, 2016, according to the approvals in the documents issued by CBRC (Yin Jian Fu [2015] No. 465) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2015] No. 307), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2016 financial bonds of RMB10 billion in the national interbank bond market. This tranche of bonds have a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On September 14, 2016, according to the approvals in the documents issued by CBRC (Yin Jian Fu [2016] No. 102) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2016] No. 125), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2016 Tier 2 capital bonds of RMB10 billion in the national interbank bond market. This tranche of bonds have a term of 10 years and bear interest at fixed interest rate, and the Company may exercise the right of redemption with pre-conditions upon the expiry of the first five-year period. Relevant proceeds will all be used by the Company to replenish the tier-two capital. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of tier 2 capital bonds was AA+.

Changes in Shares and Information on Shareholders

(VII) PREFERENCE SHARES

The Company plans to conduct a non-public issuance of not more than 150 million offshore preference shares to raise proceeds not exceeding RMB15 billion to replenish the Company's additional Tier 1 Capital. Please refer to the announcement dated August 19, 2016 published by the Company on its website and Hong Kong Stock Exchange website. The Board and general meeting of the Company already considered and approved the issues like proposal and authorization relating to the issuance of offshore preference shares. The proposed issue has also been approved by the CBRC. The Company will make announcements on any substantial progress of the issuance of offshore preference shares in due course.

Directors, Supervisors, Senior Management, Employees and Institutions

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Basic information of Directors, Supervisors and senior management

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)
Shen Renkang (沈仁康)	Male	January 1963	Chairman, Executive Director	July 2014	February 2015 to now	0	0	89.59
Liu Xiaochun (劉曉春)	Male	March 1959	Vice Chairman, Executive Director, President	July 2014	February 2015 to now	0	0	524.48
Wang Mingde (王明德)	Male	November 1942	Vice Chairman, Non-executive Director	August 2010	February 2015 to now	0	0	-
Zhang Luyun (張魯芸)	Female	December 1961	Executive Director	January 2015	February 2015 to now	0	0	75.82
Xu Renyan (徐仁艷)	Male	August 1965	Executive Director, Vice President	May 2004	February 2015 to now	0	0	481.72
Wang Yibing (汪一兵)	Female	April 1966	Non-executive Director	February 2015	February 2015 to now	0	0	-
Shen Xiaojun (沈小軍)	Female	July 1959	Non-executive Director	March 2009	February 2015 to now	0	0	-
Gao Qinong (高勤紅)	Female	July 1963	Non-executive Director	May 2004	February 2015 to now	0	0	-
Hu Tiangao (胡天高)	Male	September 1965	Non-executive Director	May 2004	February 2015 to now	0	0	-
Lou Ting (樓婷)	Female	October 1976	Non-executive Director	February 2015	February 2015 to now	0	0	-
Zhu Weiming (朱璋明)	Male	March 1969	Non-executive Director	October 2016	December 2016 to now	0	0	-
Jin Xuejun (金雪軍)	Male	June 1958	Independent Non-executive Director	August 2010	February 2015 to now	0	0	30.00
Tong Benti (童本立)	Male	August 1950	Independent Non-executive Director	February 2015	February 2015 to now	0	0	30.00
Yuan Fang (袁放)	Male	March 1957	Independent Non-executive Director	February 2015	February 2015 to now	0	0	30.00
Dai Deming (戴德明)	Male	April 1962	Independent Non-executive Director	February 2015	February 2015 to now	0	0	30.00
Liu Pak Wai (廖柏偉)	Male	January 1948	Independent Non-executive Director	February 2015	February 2015 to now	0	0	30.00

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)
Zheng Jindu (鄭金都)	Male	July 1964	Independent Non-executive Director	December 2015	December 2015 to now	0	0	30.00
Wei Dongliang (韋東良)	Male	September 1974	Former Non-executive Director	February 2015	February 2015 to August 2016	0	0	-
Zheng Xinli (鄭新立)	Male	February 1945	Former Independent Non-executive Director	February 2015	February 2015 to April 2016	0	0	10.00
Yu Jianqiang (于建強)	Male	March 1962	Shareholder Representative Supervisor, Chairman of the Board of Supervisors	February 2015	February 2015 to now	0	0	367.53
Zheng Jianming ⁽¹⁾ (鄭建明)	Male	January 1973	Employee Representative Supervisor, Vice Chairman of Board of Supervisors	June 2013	February 2015 to now	0	0	-
Tao Xuegen (陶學根)	Male	October 1953	Shareholder Representative Supervisor	June 2005	February 2015 to now	0	0	-
Zhou Yang (周洋)	Male	October 1988	Shareholder Representative Supervisor	February 2015	February 2015 to now	0	0	-
He Xudong (何旭東)	Male	November 1977	Shareholder Representative Supervisor	October 2016	October 2016 to now	0	0	-
Dong Zhoufeng ⁽¹⁾ (董舟峰)	Male	March 1957	Employee Representative Supervisor	March 2004	February 2015 to now	0	0	-
Ge Lixin ⁽¹⁾ (葛立新)	Male	October 1966	Employee Representative Supervisor	July 2004	February 2015 to now	0	0	-
Zhang Rulong ⁽¹⁾ (張汝龍)	Male	January 1966	Employee Representative Supervisor	July 2004	February 2015 to now	0	0	-
Jiang Zhihua (蔣志華)	Male	August 1943	External Supervisor	May 2004	February 2015 to now	0	0	30.00
Yuan Xiaoqiang (袁小強)	Male	March 1963	External Supervisor	February 2015	February 2015 to now	0	0	30.00
Huang Zuhui (黃祖輝)	Male	June 1952	External Supervisor	February 2015	February 2015 to now	0	0	30.00
Wang Jun (王軍)	Male	April 1970	External Supervisor	February 2015	February 2015 to now	0	0	30.00

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)
Cheng Huifang (程惠芳)	Female	September 1953	External Supervisor	June 2016	June 2016 to now	0	0	17.50
Huang Haibo (黄海波)	Male	February 1978	Former Shareholder Representative Supervisor	December 2015	December 2015 to August 2016	0	0	-
Ye Jianqing (葉建清)	Male	March 1963	Vice President	January 2004	February 2015 to now	0	0	485.59
Zhang Changgong (張長弓)	Male	October 1965	Vice President	January 2015	February 2015 to now	0	0	384.14
Xu Manxuan (徐蔓萱)	Male	October 1963	Vice President President Assistant	September 2002	January 2016 to now February 2015 to January 2016	0	0	414.40
Wu Jianwei (吳建偉)	Male	February 1971	Vice President President Assistant	March 2015	April 2016 to now March 2015 to April 2016	0	0	335.17
Liu Long (劉龍)	Male	September 1965	Vice President, Secretary of the Board Secretary of the Board	September 2014	April 2016 to now February 2015 to April 2016	0	0	340.98
Jiang Yulin (姜雨林)	Male	June 1968	Vice President	April 2016	April 2016 to now	0	0	96.24
Feng Jiansong (馮劍松)	Male	September 1962	President Assistant	December 2008	February 2015 to now	0	0	376.39

Notes:

- (1) The Company's employee representative Supervisors receive their remuneration with respect to their posts as employees and do not receive any remuneration as employee representative Supervisors.

Directors, Supervisors, Senior Management, Employees and Institutions

2. Changes in Directors, Supervisors and senior management during the Reporting Period

Directors

On April 7, 2016, Mr. Zheng Xinli submitted his resignation as independent non-executive Director to the Company due to other work commitments.

On August 19, 2016, Mr. Wei Dongliang submitted his resignation as non-executive director to the Company due to other work commitments.

On October 17, 2016, the Company held the 2016 first extraordinary general meeting, at which Mr. Zhu Weiming was elected as the non-executive director of the fourth session of Board of Directors, and his qualification was approved by the CBRC in December 2016.

Supervisors

On June 15, 2016, the Company held the 2015 general meeting, at which Ms. Cheng Huifang was elected as the external Supervisor of the fourth session of Board of Supervisors.

On August 19, 2016, Mr. Huang Haibo submitted his resignation as Shareholder representative Supervisor to the Board of Supervisors of the Company due to work adjustment.

On October 17, 2016, the Company held the 2016 first extraordinary general meeting, at which Mr. He Xudong was elected as the Shareholder representative Supervisor of the fourth session of Board of Supervisors.

Senior Management

On January 29, 2016, the Company held the fourth meeting of the fourth session of Board of Directors, at which Mr. Xu Manxuan was appointed as our vice president.

On April 22, 2016, the Company engaged Mr. Wu Jianwei, Mr. Liu Long and Mr. Jiang Yulin as vice presidents of the Company at the fifth meeting of the fourth session of Board of the Company, and in the meantime, dismissed Mr. Chen Chunxiang as vice president of the Company.

The qualification for the positions of above-mentioned senior management has been approved by the CBRC.

Directors, Supervisors, Senior Management, Employees and Institutions

3. Posts held by Directors and Supervisors in our Shareholders or their related enterprises

Name	Employing enterprise	Post	Term of Office
Wang Yibing	Zhejiang Provincial Financial Holdings Co., Ltd.	Manager of financial management department	Since 2012
Wang Mingde	Traveller Automobile Group Co., Ltd.	Vice president	Since 2010
Shen Xiaojun	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	Chairman of the labor union	Since 2014
Gao Qinrong	Zhejiang Hengyi Group Co., Ltd.	Chief financial advisor	Since 2014
Hu Tiangao	Hengdian Group Holdings Limited	Director and vice president	Since 1995
Lou Ting	Guangsha Holding Group Co., Ltd.	Chief executive officer	Since 2013
Zhu Weiming	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Director of the finance and asset management department	Since 2016
Tao Xuegen	Lizi Group Co., Ltd.	Deputy secretary of CPC committee	Since 2004
Zhou Yang	Zhejiang Yongli Industry Group Co., Ltd.	Vice chairman	Since 2014
He Xudong	Zhejiang Provincial Energy Group Co., Ltd.	Deputy head of the asset operation department	Since 2013

4. Profile of Directors, Supervisors and senior management and information of their concurrent post

Directors

Shen Renkang (沈仁康)

Mr. Shen Renkang (沈仁康) is currently the secretary of the Communist Party of China (“CPC”) committee, chairman and executive director of the Company. Post-graduate. Mr. Shen had successively held the posts of member of the CPC standing committee, vice county chief, vice county secretary of CPC committee, acting county chief and county chief of Qingtian County, Zhejiang; he served as the vice mayor of Lishui City, Zhejiang and concurrently held the position of party committee secretary of management committee of Lishui Economic Development Zone and member of the standing committee of Lishui City, Zhejiang; he served as the vice secretary of the municipal CPC committee of Lishui City, Zhejiang, during which period he concurrently held the position of politics and law committee secretary in the municipal CPC committee of Lishui City; and he also served as deputy secretary, acting mayor and mayor of Quzhou City, Zhejiang Province.

Directors, Supervisors, Senior Management, Employees and Institutions

Liu Xiaochun (劉曉春)

Mr. Liu Xiaochun (劉曉春) is currently the deputy secretary of CPC committee, vice chairman, executive director and president of the Company. Undergraduate and senior economist. Mr. Liu assumed the position of vice Director of editorial department of the financial research institute's Zhejiang Rural Financial Research (《浙江農村金融研究》), section chief of credit section of 95 international business department, manager of credit department of international business department, vice general manager of business department, general manager of international business department of Zhejiang provincial branch of the Agricultural Bank of China; vice general manager of international business department of the head office of the Agricultural Bank of China; CPC party committee member and vice president of Zhejiang provincial branch of the Agricultural Bank of China; and vice general manager and general manager of Hong Kong branch of the Agricultural Bank of China.

Wang Mingde (王明德)

Mr. Wang Mingde (王明德) is currently the vice chairman and a non-executive Director of the Company. College undergraduate and senior economist. Mr. Wang had held the posts of section chief and vice president of Wenzhou branch, Bank of China; president of Bank of China Osaka branch; vice president of Tokyo branch of Bank of China; vice president of Zhejiang Provincial branch of Bank of China; vice president of Tokyo branching Bank of China (reengagement); and senior expert (general manager level) of IT blueprint office of head office of Bank of China. Mr. Wang is currently vice president of Traveller Automobile Group Co., Ltd..

Zhang Luyun (張魯芸)

Ms. Zhang Luyun (張魯芸) is currently the deputy secretary of CPC committee, executive Director and director of labor union working committee at the head office of the Company. EMBA, senior economist and post-secondary education assistant researcher. Ms. Zhang had held the position of vice director general of information division and chief of press section of Hangzhou Municipal Office; a member of the party committee and vice president of Hangzhou Radio & TV University; secretary for confidential information at division chief level of organization department of Zhejiang provincial party committee; a member of the party committee, vice general manager and director of Zhejiang Communications Investment Group Co., Ltd. (浙江省交通投資集團有限公司); and non-executive director of Zhejiang Expressway Co., Ltd. (浙江滬杭甬高速公路股份有限公司).

Xu Renyan (徐仁艷)

Mr. Xu Renyan (徐仁艷) is currently an executive Director, vice president and CPC party committee member of the Company. Postgraduate, senior accountant and certified tax agent. Mr. Xu had successively held positions of the vice section chief and the section chief of financial section, accounting department, Zhejiang provincial branch of PBOC; vice director of accounting department, Zhejiang provincial branch of PBOC; vice director and director of accounting and financial department, Hangzhou central branch, PBOC; and a member of the party committee and vice president of Hangzhou central branch, PBOC.

Directors, Supervisors, Senior Management, Employees and Institutions

Wang Yibing (汪一兵)

Ms. Wang Yibing (汪一兵) is currently a non-executive Director of the Company. Undergraduate and senior accountant. Ms. Wang had successively held the posts of manager of project department, assistant to general manager and vice general manager of Zhejiang Province Xingcai Real Estate Development Company (浙江省興財房地產發展公司). Ms. Wang now holds posts of manager of first investment department of Zhejiang Province Financial Development Company (浙江省財務開發公司); manager of financial management department of Zhejiang Provincial Financial Holdings Co., Ltd. (浙江省金融控股有限公司); and non-executive director of Caitong Securities Co., Ltd. (財通證券股份有限公司) and Yongan Futures Co., Ltd..

Shen Xiaojun (沈小軍)

Ms. Shen Xiaojun (沈小軍) is currently a non-executive Director of the Company. Undergraduate and senior economist. Ms. Shen used to work as secretary of leading party members' group and bureau director of Shaoxing County Statistical Bureau; she used to work as the secretary of leading party members' group and the bureau director of Shaoxing County Economic and Trade Bureau; she served as chairman of Zhejiang China Light & Textile Industrial City Group Co., Ltd. (浙江中國輕紡城集團股份有限公司); she served as chairman of Shaoxing County China Light & Textile Industry City Market Development and Management Co., Ltd. (紹興縣中國輕紡城市場開發經營有限公司); She now serves as vice chairman of Kuaijishan Shaoxing Rice Wine Co., Ltd. (會稽山紹興酒股份有限公司) and the chairman of the labor union of Zhejiang China Light & Textile Industrial City Group Co., Ltd..

Gao Qinhong (高勤紅)

Ms. Gao Qinhong (高勤紅) is currently a non-executive Director of the Company. Postgraduate and senior economist. Ms. Gao worked as accountant and credit manager of Xiaoshan branch of Industrial and Commercial Bank of China; she served as accountant and credit manager of Zhejiang provincial branch of Industrial and Commercial Bank of China; she served as section chief of credit and loan section and division-level inspector of Hangzhou branch and vice president of Wulin sub-branch, Shanghai Pudong Development Bank Co., Ltd.; she had served successively as vice general manager and chief financial officer and director of Zhejiang Hengyi Group Co., Ltd. (浙江恒逸集團有限公司); she now works as chief financial advisor and director of Zhejiang Hengyi Group Co., Ltd. and held a concurrent position as a director of Hengyi Petrochemical Co., Ltd. (恒逸石化股份有限公司).

Hu Tiangao (胡天高)

Mr. Hu Tiangao (胡天高) is currently a non-executive Director of the Company. EMBA and senior economist. Mr. Hu served as vice president of Dongyang sub-branch, Bank of China; he is currently a director and vice president of Hengdian Group Holdings Limited (橫店集團控股有限公司); director of Hengdian Group DMEGC Magnetics Co., Ltd. (橫店集團東磁股份有限公司); director of Apeloia Pharmaceutical Co., Ltd. (普洛藥業股份有限公司); and director of Innuovo Technology Co., Ltd. (英洛華科技股份有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Lou Ting (樓婷)

Ms. Lou Ting (樓婷) is currently a non-executive Director of the Company. Undergraduate and intermediary financial economist. Ms. Lou held several positions in Jinhua branch of Bank of Communications Co., Ltd. (交通銀行股份有限公司) as assistant manager of business department I, operating department and concurrently held the positions of manager of business and sales department III, vice general manager of international business department and business development department concurrently, manager of Jindong District and Dongyang District's regional business development department III and president of Dongyang sub-branch. She is now chief executive officer of Guangsha Holding Group Co., Ltd. (廣廈控股集團有限公司).

Zhu Weiming (朱瑋明)

Mr. Zhu Weiming (朱瑋明) is currently a non-executive Director of the Company. Postgraduate. Mr. Zhu successively held the positions of vice director and director of the general manager service department at Jiaying Power Generation Co., Ltd.; vice general manager and secretary of the board for Zhejiang Southeast Electric Power Company Limited; vice general manager at Zhoushan Marine Comprehensive Development and Investment Co., Ltd.; vice director of the investment and development department at Zhejiang Marine Development & Investment Group Co., Ltd.; vice director of the investment and development department as well as vice director of the finance and asset management department at Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.. He is currently the director of the finance and asset management department at Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd..

Jin Xuejun (金雪軍)

Mr. Jin Xuejun (金雪軍) is currently an independent non-executive Director of the Company. Post graduate and professor. Mr. Jin served as independent non-executive director of Harbin High-Tech (Group) Co., Ltd. (哈爾濱高科技(集團)股份有限公司) and Zhejiang Orient Holdings Co., Ltd. (浙江東方股份集團有限公司). Mr. Jin has been engaged in finance teaching and research work in Zhejiang University. Mr. Jin is now the president of the International Finance Association of Zhejiang Province, State Council Special Allowance Expert and Young Expert with Outstanding Contribution of Zhejiang. He now holds the posts of independent director of Zhejiang Weixing Industrial Development Co., Ltd. (浙江偉星實業發展股份有限公司), Xihu Zhongbao Co., Ltd. (新湖中寶股份有限公司), Hua'an Securities Limited Liability Company (華安證券股份有限公司), Changjiang & Jingong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司) and Zuoli Kechuang Micro-finance Company Limited (佐力科創小額貸款股份投資有限公司) respectively; and director of HAKIM Co., Ltd. (漢鼎信息科技股份有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Tong Benli (童本立)

Mr. Tong Benli (童本立) is currently an independent non-executive Director of the Company. Postgraduate, professor and a senior accountant. Mr. Tong held the position of division chief of budget division of Zhejiang Provincial Department of Finance; associate dean, dean and secretary of CPC committee of Zhejiang College of Finance & Economics (now known as Zhejiang University of Finance and Economics); independent non-executive director of Zhejiang Medicine Co., Ltd. (浙江醫藥股份有限公司), Sunyard System Engineering Co., Ltd. (杭州信雅達系統工程股份有限公司), Zhejiang Narada Power Source Co., Ltd. (浙江南都電源動力股份有限公司), Soyea Technology Co., Ltd. (數源科技股份有限公司) and Zhejiang Reclaim Construction Group Co., Ltd. (浙江省圍海建設集團股份有限公司). Mr. Tong is currently an independent non-executive director of Hangzhou Jiebai Group Co., Limited (杭州解百集團股份有限公司). Mr. Tong is also the vice president of Zhejiang Provincial Auditing Society.

Yuan Fang (袁放)

Mr. Yuan Fang (袁放) is currently an independent non-executive Director of the Company. Undergraduate and the securities practice qualification. Mr. Yuan served as vice president of Zhejiang Academy of Bank (now known as Zhejiang Financial College); vice division chief of finance management office, Zhejiang provincial branch of People's Bank of China; vice general manager of Zhejiang Provincial Securities Trading Center; vice president of Tianyi Securities Co., Ltd. (天一證券有限責任公司); general manager of Zhejiang Property & Stock Exchange Co., Ltd. (浙江產權交易所有限公司); vice president of Coslight Technology International Group Co., Ltd. (光宇集團有限公司). He is currently chairman of Zhejiang Provincial Securities and Listed Company Research Association. He is also the independent non-executive director of Myshare Bank of Wanzhou (溫州民商銀行).

Dai Deming (戴德明)

Mr. Dai Deming (戴德明) is currently an independent non-executive Director of the Company. Doctoral degree and professor. Mr. Dai has been teaching at the accounting department of Renmin University of China, being a lecturer, associate professor and professor successively. Mr. Dai was an independent non-executive director of CRRC Corporation Limited (中國南車股份有限公司), Shanxi Taigang Stainless Steel Co., Ltd. (山西太鋼不銹鋼股份有限公司) and Beijing Xinwei Telecom Technology Group Co., Ltd. (北京信威通信科技集團股份有限公司), respectively. He currently serves as vice chairman of Accounting Society of China and independent non-executive director of Qingdao Haier Co., Ltd. (青島海爾股份有限公司), Beijing Capital Development Co., Ltd. (北京首都開發股份有限公司), BOC Aviation Limited and China Securities Co., Ltd. (中信建投證券股份有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Liu Pak Wai (廖柏偉)

Mr. Liu Pak Wai (廖柏偉) is currently an independent non-executive Director of the Company. Doctoral degree and professor. Mr. Liu has been teaching at the Chinese University of Hong Kong, being a lecturer, senior lecturer, professor and chair professor of the Chinese University of Hong Kong successively, during which, he also worked as pro-vice chancellor of the Chinese University of Hong Kong. Mr. Liu now works as a professor of Lau Chor Tak Institute of Global Economics and Finance, the Chinese University of Hong Kong, a director of Hong Kong Institute of Monetary Research under the HKMA, and an independent non-executive director of Transport International Holdings Limited (載通國際控股有限公司) and Hang Lung Group Limited (恒隆集團有限公司) respectively. Mr. Liu was awarded the Hong Kong Silver Bauhinia Star in 1999 and was appointed Hong Kong Justice of the Peace in 2006.

Zheng Jindu (鄭金都)

Mr. Zheng Jindu (鄭金都) is currently an independent non-executive Director of the Company. Postgraduate and the qualification for the first grade lawyer. Mr. Zheng was a lecturer at the Faculty of Law of Hangzhou University (now known as Zhejiang University), a vice director and partner of Zhejiang Guoqiang Law Firm (浙江國強律師事務所) and an independent non-executive director of Changjiang & Jinggong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司). Mr. Zheng is currently a director and partner of Zhejiang L&H Law Firm (浙江六和律師事務所) and the president of Zhejiang Lawyers Association (浙江省律師協會). He is also the managing director of All China Lawyers Association (中華全國律師協會) and the vice-president of Zhejiang Law Association (浙江省法學會). He serves as an independent non-executive director of Sundry Land Investment Co., Ltd. (宋都基業投資股份有限公司), Hangzhou ShenHao Technology Co., Ltd. (杭州申昊科技股份有限公司) and Zhejiang Wonderful-wall Building Materials Co., Ltd. (墻煌新材料股份有限公司).

Supervisors

Yu Jianqiang (于建強)

Mr. Yu Jianqiang (于建強) is currently the chairman of the Board of Supervisors and a shareholder representative Supervisor of the Company. Postgraduate. Mr. Yu worked successively in the Communist Youth League of Zhejiang Provincial Party Committee as executive secretary, vice minister in propaganda department and the head of United Front Work Department. He also served as general secretary and vice chairman of Zhejiang Youth United Association. He successively worked as vice section chief and chief in the Office of the Food and Drug Administration of Zhejiang (during which period he concurrently worked as director of the planning and finance department from October 2003 to December 2005); and assistant to the chief executive officer of Minsheng Life Insurance Company Ltd. (民生人壽保險股份有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Zheng Jianming (鄭建明)

Mr. Zheng Jianming (鄭建明) is currently the vice chairman of the Board of Supervisors, director of the Board of Supervisors Office and employee representative supervisor. Postgraduate and economist. Mr. Zheng successively worked as the office secretary of Zhejiang provincial branch of PBOC, and office secretary and vice director of the secretary section of Hangzhou Central Branch of PBOC. He successively held the positions of vice division chief and secretary for confidential information at director level in the General Office of the People's Government of Zhejiang Province.

Tao Xuegen (陶學根)

Mr. Tao Xuegen (陶學根) is currently a Shareholder representative Supervisor of the Company. Undergraduate and economist. Mr. Tao served as the Director of the Company. He is currently serving as the deputy secretary of CPC committee of Lizi Group Co., Ltd. (李字集團有限公司).

Zhou Yang (周洋)

Mr. Zhou Yang (周洋) is currently a Shareholder representative Supervisor of the Company. Undergraduate. Mr. Zhou served as an assistant to financing manager of Zhejiang Yongli Industry Group Co., Ltd. (浙江永利實業集團有限公司). He is currently the vice chairman of the board and secretary of CPC committee of Zhejiang Yongli Industry Group Co., Ltd. (浙江永利實業集團有限公司).

He Xudong (何旭東)

Mr. He Xudong (何旭東) is currently a Shareholder representative Supervisor of the Company. Undergraduate and economist. Mr. He served as the head of asset management department and the head of general office of Coal and Transportation Subsidiary of Zhejiang Provincial Energy Group Co., Ltd.. He is currently serving as the deputy head of the asset operation department of Zhejiang Provincial Energy Group Co., Ltd..

Dong Zhoufeng (董舟峰)

Mr. Dong Zhoufeng (董舟峰) is currently an employee representative Supervisor of the Company. Undergraduate and senior economist. Mr. Dong successively held the positions of vice subsection chief of planning subsection of Dinghai County Sub-branch of PBOC; clerk and section chief of planning section, president assistant and head of planning section, president assistant and director of general office, vice president of branch and vice director of State Administration of Foreign Exchange, president and director of State Administration of Foreign Exchange, member and secretary of party committee of Zhoushan Branch of PBOC; president assistant of CITIC Bank and president of Ningbo sub-branch of CITIC Bank. He served successively as deputy director of the executive office and the deputy general manager and general manager of human resource department of the Company. He is currently the director of Capital Markets Department of the Company.

Directors, Supervisors, Senior Management, Employees and Institutions

Ge Lixin (葛立新)

Mr. Ge Lixin (葛立新) is currently an employee representative Supervisor of the Company. Undergraduate and economist. Mr. Ge worked at Zhejiang Branch, Agricultural Bank of China; Mr. Ge successively held the posts of executive manager, assistant to general manager and vice general manager of business management department of the Company, during which, he held concurrent posts of vice general manager of small business credit center and vice general manager of corporate banking department; vice general manager and general manager of development and research department, during which, he also held concurrent positions of vice general manager of small business credit center and vice general manager of planning and finance department. He is currently general manager of asset and liability management department of the head office of the Company.

Zhang Rulong (張汝龍)

Mr. Zhang Rulong (張汝龍) is currently an employee representative Supervisor of the Company. Undergraduate and senior economist. Mr. Zhang worked at Shaoxing sub-branch, Zhejiang provincial branch, credit and loan management division of provincial branch, Zhejiang Rongda Information Inquiry Company (浙江融達信息諮詢公司) and Shaoxing branch of Agricultural Bank of China, etc; Mr. Zhang has successively served as vice general manager of the risk management department, vice general manager of the credit assessment department, president of Chengdu branch of the Company. He is currently general manager of the credit assessment department of the Company.

Jiang Zhihua (蔣志華)

Mr. Jiang Zhihua (蔣志華) is currently an external Supervisor of the Company. College undergraduate and senior economist. Mr. Jiang served as the president of Ningbo branch and Zhejiang provincial branch of Agricultural Bank of China, and the Director of the Company.

Yuan Xiaoqiang (袁小強)

Mr. Yuan Xiaoqiang (袁小強) is currently an external Supervisor of the Company. Master, registered tax agent, senior accountant and certified public accountant. Mr. Yuan served as the vice director of Hangzhou Tax Agency of Zhejiang. He is currently a senior partner of Zhonghui Tax Agency and Zhonghui Accounting Firm. Mr. Yuan is also a member of Chinese People's Political Consultative Conference of Zhejiang, executive director of the Chinese Certified Tax Agents Association, vice chairman and director of the Standards Committee of Certified Tax Agents Association of Zhejiang and vice chairman of Zhejiang Province Intellectuals Fellowship.

Huang Zuhui (黃祖輝)

Mr. Huang Zuhui (黃祖輝) is currently an external Supervisor of the Company. Postgraduate and professor. Mr. Huang is currently the professor and doctoral supervisor of Agricultural Economical Management Department, Management School, Zhejiang University. Mr. Huang is also vice chairman of Chinese Rural Cooperative Economic Management Institute.

Directors, Supervisors, Senior Management, Employees and Institutions

Wang Jun (王軍)

Mr. Wang Jun (王軍) is currently an external Supervisor of the Company. Postdoctorate and researcher. Mr. Wang worked at Central Policy Research Office of the CPC and served as vice division chief and division chief; director of macroeconomic research division, vice director (in charge) of consultation research department and vice director (in charge) of information department of China Center for International Economic Exchanges. He is currently director (in charge) of information department of China Center for International Economic Exchanges.

Cheng Huifang (程惠芳)

Ms. Cheng Huifang (程惠芳) is currently an external Supervisor of the Company. Doctoral degree, professor and doctoral supervisor. Ms. Cheng had been the lecturer and the vice professor of Zhejiang Chemical College and Zhejiang Institute of Technology (now known as Zhejiang University of Technology). She also worked as the assistant to the president, the executive vice president and the president of College of Economics and Management, Zhejiang University of Technology. She is now the president of Global Institute for Zhejiang Merchants Development, Zhejiang University of Technology. She also serves as the general director of Zhejiang Institute of Financial Engineering.

Senior Management

Liu Xiaochun (劉曉春)

As for Mr. Liu Xiaochun, please refer to Mr. Liu Xiaochun's profile in the "Directors" section above.

Xu Renyan (徐仁艷)

As for Mr. Xu Renyan, please refer to Mr. Xu Renyan's profile in the "Directors" section above.

Ye Jianqing (葉建清)

Mr. Ye Jianqing (葉建清) is currently the vice president and party committee member of the Company. Postgraduate and senior economist. Mr. Ye served as vice division chief of the financial division of Zhejiang Bank School (now known as Zhejiang Financial College); director of experiment urban credit cooperative of Zhejiang Bank School; and general manager of experiment bank of Zhejiang Bank School. He successively held the positions of vice manager and manager of planning credit and loan department, Hangzhou branch, CITIC Industrial Bank, president assistant of Hangzhou branch and president of Tianshui sub-branch, party committee member, vice president, and secretary of commission for disciplinary inspection, president assistant and general manager of risk management department, president assistant and general manager of risk management department (compliance department), vice president and general manager of risk management department (compliance department) as well as vice president of the Company.

Directors, Supervisors, Senior Management, Employees and Institutions

Zhang Changgong (張長弓)

Mr. Zhang Changgong (張長弓) is currently vice president and party committee member of the Company. Doctoral degree. Mr. Zhang successively held the posts of assistant to general manager and vice general manager of personnel supervision department of Great Wall Securities Limited (長城證券有限責任公司); vice general manager, general manager of general affairs department, party committee member and vice president of Shenzhen branch of Industrial Bank; secretary of CPC committee and president of Guangzhou branch of Industrial Bank; secretary of CPC committee and president of Nanjing branch of Industrial Bank; primary responsible officer of preparation group for reorganization and re-establishment of Guangdong Huaxing Bank; vice president of management head office of retail banking, general manager of personal banking department, Industrial Bank, and secretary of CPC committee and president of Hangzhou branch of Industrial Bank., respectively.

Xu Manxuan (徐蔓萱)

Mr. Xu Manxuan (徐蔓萱) is currently vice president and party committee member of the Company. Undergraduate and senior accountant. Mr. Xu successively served as vice section chief and section chief of finance infrastructure office, accountant and cashier division of Zhejiang provincial branch, Agricultural Bank of China; vice division chief of accountant and finance division; vice director of inspection office; and vice director of inspection division (division-level), Zhejiang provincial branch, Agricultural Bank of China, general manager of planning and finance department, president assistant and general manager of planning and finance department, president assistant and general manager of finance & accounting department as well as president assistant of the Company.

Wu Jianwei (吳建偉)

Mr. Wu Jianwei (吳建偉) is currently vice president of the Company. Postgraduate and senior engineer. Mr. Wu worked in Zhejiang provincial branch, Agricultural Bank of China where he successively held the positions of vice section chief of application development section of information and technology department I, section chief of sales development department, assistant to director; he served as vice director of data operation center; he held the position of vice division chief (in charge) of e-bank division and division chief of E-bank division; general manager of E-bank department; secretary of CPC Committee and president of Wenzhou branch, Agricultural Bank of China; CPC party committee member and president assistant of Inner Mongolia Autonomous Region branch of Agricultural Bank of China; president assistant of the Company.

Directors, Supervisors, Senior Management, Employees and Institutions

Liu Long (劉龍)

Mr. Liu Long (劉龍) is currently vice president, secretary of the Board, joint company secretary and head of Board of Directors Office of the Company. Undergraduate and senior accountant. Mr. Liu worked at finance and tax bureau of Changshan County, Zhejiang, during which period he served as vice director and CPC party member; secretary of CPC party committee of Tianma Town, Changshan County, Zhejiang; director and secretary of CPC committee of planning and economy committee of Changshan County, Zhejiang; vice director and CPC committee member of auditing bureau of Quzhou City, Zhejiang; county CPC standing committee member of Changshan County, Zhejiang, as well as vice county chief of Changshan County People's Government; vice secretary of CPC county committee, vice county chief and vice secretary of CPC county committee, vice secretary of CPC committee of Changshan County, Zhejiang and chairman of People's Political Consultative Conference of Changshan County, Zhejiang; director and secretary of CPC committee of the economic and information committee of Quzhou City, Zhejiang; vice secretary general and executive office director of Quzhou Municipal Government, Zhejiang.

Jiang Yulin (姜雨林)

Mr. Jiang Yulin (姜雨林) is currently the vice president of the Company. Undergraduate. Mr. Jiang successively worked as an employee of the operation department of Hangzhou branch of PBOC; vice section chief of accounting management section of accounting department, section chief of development and management section of retail business department, division chief of corporate business division IV of operation department and retail business division of Hangzhou branch, China CITIC Bank; president of Jiefang sub-branch of Hangzhou branch and Tianshui sub-branch, China CITIC Bank; president assistant of Hangzhou branch, China CITIC Bank; vice president and general manager of operation department of Hangzhou branch, China CITIC Bank; general manager of corporate banking department of China CITIC Bank; director of CITIC Financial Leasing Co., Ltd..

Feng Jiansong (馮劍松)

Mr. Feng Jiansong (馮劍松) is currently president assistant and party committee member of the Company and president of Beijing Branch. Postgraduate and senior economist. Mr. Feng worked as a principal staff member of the office of Nanjing branch, CITIC Industrial Bank, sub-manager of credit sub-division I, head of business department, during which period he worked as head and deputy director of Xinjiekou office and vice president of Xinjiekou sub-branch, CITIC Industrial Bank; vice manager and manager of business department of Nanjing branch, China Merchants Bank; head of preparation group of Nanjing branch, China Minsheng Bank; vice general manager of credit business department, and vice general manager of corporate business department (in charge) and general manager of China Minsheng Bank; general manager of corporate business department division I and group leader of Shaanxi International Trust and Investment working group of China Minsheng Bank.

5. Remuneration Policies for Directors, Supervisors and Senior Management

The remuneration of the Directors of the Company is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination and Remuneration Committee under the Board of Directors and submitted to the Board of Directors for approval, and submitted to the general meeting for approval after being approved by the Board of Directors.

The remuneration of the Supervisors of the Company is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination Committee under Board of Supervisors and submitted to the Board of Supervisors for approval, and submitted to the general meeting for approval after being approved by the Board of Supervisors.

The Company's appraisal on the senior management is based on their performance in completing the decisions, strategic targets and plans of the Board of Directors and whether they are actively and effectively protecting the interests of the Company and the Shareholders, and it is implemented by the Board of Directors.

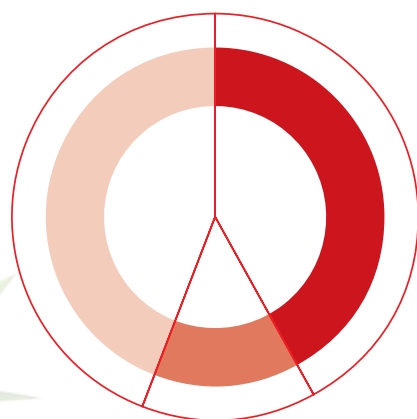
The incentive and restraint mechanism of the Company is mainly embodied in the distribution mechanism for the senior management. The remuneration to the senior management is linked to the appraisal indicators of the Board of Directors, in order to combine the target incentive with responsibility restraint, ensure the alignment of the remuneration payment with the long-term interests of the Company, and better encourage the senior management to contribute to the steady and sustainable development of the Company. The evaluation and remuneration payment plan for the senior management shall be reviewed by the Nomination and Remuneration Committee under the Board of Directors, and then approved and implemented by the Board of Directors annually, and disclosed according to the relevant requirements.

Directors, Supervisors, Senior Management, Employees and Institutions

6. Employees and Remuneration Policies

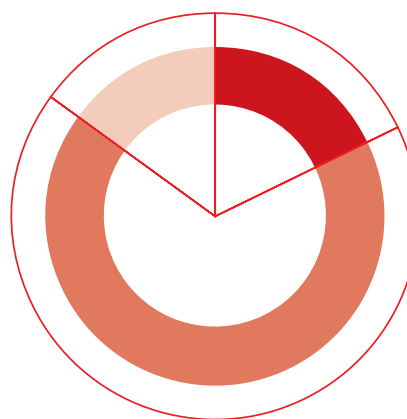
At the end of the reporting period, we had 11,305 employees in total (including staff under a labour despatch arrangement), representing an increase of 2,945 as compared to that at the end of Last year. Based on the position types, 4,862 were marketing personnel, 1,531 were counter personnel, and 4,912 were mid-office and back-office personnel; based on educational levels, 2,028 obtained post-graduate degree or above (including 60 with doctorate degree), 7,595 obtained bachelor degree, and 1,682 obtained college degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 13 employees had retired from the Company.

By Position Types



- counter personnel
- mid-office and back-office personnel
- marketing personnel

By Educational Levels



- post-graduate degree or above
- bachelor degree
- college degree or below

Following the remuneration policies that are in line with our development strategies, guided by the concept of people first, oriented to market, and equipped with comprehensive standardized management, the Company improved its remuneration management mechanism that determines the remuneration according to the salary levels based on position types, and optimized the remuneration determination mechanism that is based on individual performance and organizational performance. Focused mainly on capability and performance, we tried to establish and improve a market-oriented remuneration system that embodies internal fairness and external competitiveness, spurs development of both the employees and the Company, and emphasizes both welfare and incentives, and is based on the value of positions.

7. Employees training

Centered on our operation and development strategies, based on the improvement of professional capabilities and operating results, and on the basis of carrying out all-staff training program, our Company highlights the cultivation of core, key and special talents and practices a variety of trainings including leadership training, business line core personnel training and training for personnel holding key positions, so as to raise the professional capabilities and quality of our employees at their positions. During the reporting period, the Bank held 1,544 training courses in total with 141,629 attendances.

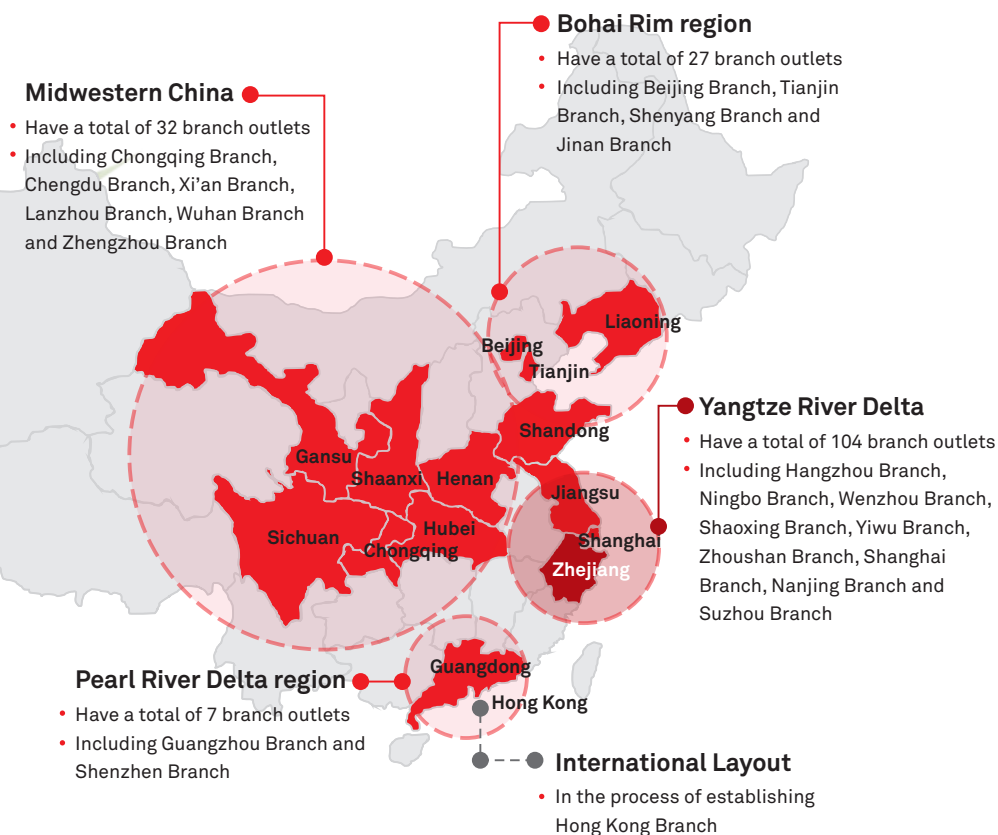
Directors, Supervisors, Senior Management, Employees and Institutions

8. Information on Institutions

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees
Yangtze River Delta region	Headquarters	No. 288, Qingchun Road, Hangzhou	95527	310006	1	1,646
	Small Enterprise Credit Center	No. 288, Qingchun Road, Hangzhou	0571-87659510	310006	1	41
	Shanghai Branch	No. 567, Weihai Road, Shanghai	021-61333333	200041	10	486
	Nanjing Branch	No. 9, Zhongshan North Road, Gulou District, Nanjing	025-86823636	210008	14	762
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	7	352
	Hangzhou Branch	No. 736, Jianguo North Road, Hangzhou	0571-87330733	310004	35	1,892
	Ningbo Branch	No. 739, Zhongxing Road, Jiangdong District, Ningbo	0574-81855678	315040	13	567
	Wenzhou Branch	Zhongtong Building, No. 319, Xincheng Avenue, Wenzhou	0577-88079900	325001	9	449
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166006	312030	8	382
	Yiwu Branch	No. 955, Beicun Road, Yiwu, Zhejiang	0579-83811501	322000	5	330
	Zhoushan Branch	Pavilion 2, No. 111, Haiyu Road, Lincheng Town, Zhoushan	0580-2260302	316021	2	109
	Bohai Rim region	Beijing Branch	Jia 1-1, Jinrong Main Street, Xicheng District, Beijing	010-88006088	100033	8
Tianjin Branch		No. 37, Youyi North Road, Hexi District, Tianjin	022-23271223	300204	9	502
Shenyang Branch		No. 56, Qingnian main street, Shenhe District, Shenyang	024-31259003	110014	4	241
Jinan Branch		No. 185, Heixi Road, Lixia District, Jinan, Shandong	0531-80961706	250011	6	515
Pearl River Delta region	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	1	217
	Shenzhen Branch	Times Science and Technology Mansion, No. 7028, Shennan Avenue, Futian District, Shenzhen	0755-82760666	518040	6	386

Directors, Supervisors, Senior Management, Employees and Institutions

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees
Midwestern China	Zhengzhou Branch	No. 2, Shangwu Waihuan Road, Zhengdong New District, Zhengzhou	0371-66277306	450018	1	71
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jiangnan District, Wuhan, Hubei	027-85331510	430000	1	136
	Chongqing Branch	Block A, No. 1, Xingguang Avenue, High-Tech Park, New North Zone, Chongqing	023-88280888	401121	6	354
	Chengdu Branch	No. 39, Ximianqiao Street, Wuhou District, Chengdu	028-85579955	610041	9	493
	Xi'an Branch	No. 311, West Avenue, Xi'an	029-88121212	710002	9	434
	Lanzhou Branch	No. 308, Baiyin Road, Chengguan District, Lanzhou	0931-8172110	730030	6	360
Total	-	-	-	-	171	11,305



Directors' Report

(I) OUR PRINCIPAL BUSINESS

The Company's principal business is to provide banking and related financial services.

(II) BUSINESS REVIEW

For the business review of our Company, please refer to the relevant sections, among others, "Description of Major Risks and Uncertainties", "Future Development" are set out in section headed "Management Discussion and Analysis"; "Major Events Occurred after the Reporting Period" is set out in "Significant Events"; "Key Financial Performance Indicators" is set out in the section headed "Financial Summary" and financial statements; "Compliance with Relevant Laws and Regulations Which Could Materially Affect the Company" is set out in "Compliance with the Laws and Regulations" in this section; and "Explanation on Important Relationship between Employees, Customers and Suppliers" is set out in "Major Customers" in this section and the section headed "Directors, Supervisors, Senior Management, Employees and Institutions". Please refer to "Social Responsibility Report" to be separately disclosed by the Company for the information on environmental policy and performance.

(III) PROFIT AND DIVIDEND DISTRIBUTION

1. The Company's profit distribution policy

According to the Articles of Association, our profit distribution policy is:

- (1) The Company shall distribute profits after income tax in the following order:
 - To make up for the losses of previous years;
 - To set aside 10% as statutory reserve fund;
 - To make provision for loss of asset impairment;
 - To set aside discretionary reserve fund;
 - To pay dividends to shareholders.
- (2) The Company may distribute profits in the form of cash, shares or other forms approved by competent regulatory authorities.
- (3) After the profit distribution plan is adopted at the general meeting of the Company, the Board shall finish distributing profits within two months after the general meeting.
- (4) Cash dividends and other payments made by the Company to the holders of domestic Shares shall be denominated, declared and paid in RMB. Cash dividends and other payments made by the Company to the holders of H Shares shall be denominated and declared in RMB and paid in Hong Kong dollars.

Directors' Report

The formulation and implementation of policy on cash dividend are in compliance with the requirements of the Articles and Association and the resolutions passed at the general meeting. The standards and proportion of dividends declaration are clear and explicit and the procedures and mechanism of decision making are mature, and have been considered and approved by the independent non-executive Directors. Minority Shareholders may fully express their opinions and requirements, and their legitimate interests have been fully protected.

2. Profit distribution proposal for the year

The results of the Company for the year ended December 31, 2016 are set out in the section of "Note to the Financial Statement" in this annual report.

The Board of Directors has recommended declaring a cash dividend for ordinary Shares for 2016 at RMB1.70 (tax inclusive) for every 10 Shares, payable in RMB to the holders of domestic Shares and in Hong Kong dollars to the holders of H Shares. The above dividend distribution proposal is subject to consideration and approval at the annual general meeting of the Company for 2016.

If approved, the 2016 final dividend of the Company will be denominated and declared in RMB and paid to the holders of the Domestic Shares in RMB and to the holders of the H Shares in Hong Kong dollars with the Hong Kong dollar to RMB exchange rate being the average mid-point exchange rate published on the website of the People's Bank of China prevailing seven business days immediately prior to the date of 2016 annual general meeting of the Company.

The expected dividend payment date will be Thursday, July 20, 2017, subject to the approval by the shareholders by way of ordinary resolution on the final dividend payment arrangement. Information regarding the record date and book closure date to determine the entitlement to the final dividend and attendance of 2016 annual general meeting of the Company will be announced in due course.

3. Cash dividends in the past three years

Item	2016	2015	2014 ⁽¹⁾
Cash dividend for every 10 shares (tax inclusive, in RMB)	1.70	1.30	–
Cash dividend (tax inclusive, in thousands of RMB)	3,053,148	2,334,761	–
Percentage of cash dividend (%) ⁽²⁾	30.07	33.11	–

Notes:

- (1) The Company did not declare any dividend for the financial year ended December 31, 2014;
- (2) Percentage of cash dividend is calculated by dividing the cash dividend (tax inclusive) by the net profit attributable to the shareholders of the Company for the period.

4. Dividend tax

According to the Enterprise Income Tax Law of the PRC and its implementation rules, both effective on January 1, 2008, before the dividends distribution, the Company shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise Shareholders whose names appear on the Bank's register of members for H Shares.

According to the Notice on Collection of Individual Income Tax after the Repeal of Guo Shui Fa No. [1993] 045 (Guo Shui Han No. [2011] 348), the Company shall withhold and pay individual income tax for individual holders of the H Shares.

If the individual holders of the H Shares are Hong Kong or Macau residents or residents of other countries or regions that have a tax rate of 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such Shareholders.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate lower than 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such Shareholders. If such Shareholders wish to claim refund of the amount in excess of the individual income tax payable under the tax treaties, the Bank can apply on behalf of the Shareholders according to the relevant tax treaties for the relevant agreed preferential tax treatment, provided that the relevant Shareholders submit the relevant documents and information in a timely manner required by the Administrative Rules on Enjoying Treatment under Taxation Treaties by Non-resident Taxpayers (State Administration of Taxation Announcement 2015, No. 60) and the provisions of the relevant tax treaties. The Bank will assist with the tax refund subject to the approval of the competent tax authority.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate higher than 10% but lower than 20% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the applicable tax rates stated in such taxation treaties on behalf of such Shareholders.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate of 20% under the tax treaties with the PRC, or that have not entered into any taxation treaties with the PRC, or otherwise, the Company will withhold and pay individual income tax at the rate of 20% on behalf of such Shareholders.

(IV) DONATIONS

During the reporting period, the Company's external donations amounted to RMB5.23 million.

(V) MAJOR CUSTOMERS

As of the end of the reporting period, the Company's interest income and other total operating income attributable to our five largest customers did not exceed 30% of the annual interest income and other total operating income of the Company.

Directors' Report

(VI) PURCHASE AND SALE AND REDEMPTION OF SECURITIES

During the reporting period, the Company did not purchase, sell or redeem any of the Company's listing securities.

(VII) PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the PRC laws.

(VIII) PUBLIC FLOAT

Based on the public information available to the Company and to the knowledge of the Directors, as of the latest practicable date prior to the issue of this report, the Company had met the public float requirement of the Hong Kong Listing Rules.

(IX) EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year ended December 31, 2016.

(X) CONNECTED TRANSACTIONS

During the reporting period, we provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, which include our connected persons (including certain shareholders, Directors, Supervisors, senior management and/or their respective associates). These transactions are entered into on normal commercial terms (or better terms in favor of the Company) in the ordinary and usual course of our business, and thus are fully exempt from the disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

We also enter into certain non-banking transactions (such as leasing arrangements) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or favourable terms to us) which have constituted de minimis transactions under Chapter 14A of the Hong Kong Listing Rules and are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Details of related party transactions entered into by the Group during the year ended December 31, 2016 are set out in "Notes to the Financial Statements – 38 Related Party Transactions".

Saved as disclosed above, no related party transactions set out in "Note to the Financial Statements-38 Related Party Transactions" comply with the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

(XI) TRANSACTIONS, ARRANGEMENTS OR CONTRACTUAL RIGHTS AND SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

During the reporting period, the Directors or Supervisors or any entities connected with the Directors or Supervisors had no material interest, directly or indirectly, in any significant transactions, arrangements or contracts entered into by the Company with respect to the Company's business. None of the Directors and Supervisors has entered into any service contract with the Company that is not terminable by the Company within one year without payment of compensation (excluding statutory compensation).

(XII) INTERESTS OWNED BY THE DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS IN THE COMPANY

As of the end of the reporting period, none of the Company's Directors, the President, the Supervisors or their respective associates had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(XIII) INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

(XIV) DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors has any interest in any business that competes or is likely to compete, either directly or indirectly, with the business of the Company.

(XV) DIRECTOR'S AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As of the end of the reporting period, none of the Directors and Supervisors had the rights to acquire shares or debentures of the Company and its associated corporations (within the meaning of the SFO).

(XVI) PERMITTED INDEMNITY PROVISIONS

The Company has purchased appropriate liability insurance to indemnify its Directors, Supervisors and senior management in respect of the liabilities arising from engaging in the activities of the Company. Such arrangements have been effective from March 14, 2016, and remained effective as at the end of the reporting period.

(XVII) MANAGEMENT CONTRACTS

Save as the service contracts entered into with the Directors and employees, the Company has not entered into any contract with any person, company or corporation in order to manage or deal with the whole or any material portion of any business of the Company.

Directors' Report

(XVIII) RESERVES AND DISTRIBUTABLE RESERVES

For details of the changes in the Company's reserves and distributable reserves, please see "Financial Statements – Statements of Changes in Equity".

(XIX) FIXED ASSETS (PROPERTIES AND EQUIPMENTS)

For details of the changes in the Company's fixed assets (properties and equipments), please see "Notes to the Financial Statements – 21 Fixed Assets".

(XX) EXTERNAL AUDITORS AND THEIR REMUNERATION

The Company engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the auditors to audit the annual financial statements of the Company for 2016 prepared in accordance with the Chinese Accounting Standards and International Financial Reporting Standards, respectively.

The remuneration paid to the above external auditors of the Company in respect of audit services and non-audit service as of the end of the reporting period amounted to RMB4,980 thousand and RMB800 thousand, respectively.

The Company has not changed the external auditor for the past three years.

(XXI) USAGE OF PROCEEDS RAISED

The Company was listed on Hong Kong Stock Exchange on March 30, 2016 and fully exercised the over-allotment option on April 19, 2016. A total of 3,795,000,000 H shares (including 3,450,000,000 new H Shares issued by the Company and 345,000,000 sale shares sold by the selling Shareholders) were issued for the global offering. The offering price was HK\$3.96 per H share with the par value of RMB1.00 per H Share, and the net proceeds were approximately HK\$13.334 billion.

The proceeds raised by the Company have been applied for the purposes disclosed in the prospectus, which were used to strengthen our capital base to meet capital needs for the continuous growth of our business and support the sustainable, rapid and healthy development of our business.

(XXII) CHANGE OF COMPANY LOGO

In order to align with the Company's new corporate identity, the Company's logo has been changed. For further details, please refer to the announcement dated December 13, 2016 published on the websites of the Company and Hong Kong Stock Exchange.

(XXIII) DEBENTURES ISSUED

Please refer to "Changes in Shares and Information on Shareholders – Issue of Bonds" of this Report for details about the debentures issued by the Company.

(XXIV) COMPLIANCE WITH THE LAWS AND REGULATIONS

As of the end of the reporting period, to the best knowledge of the Company, we have complied with all relevant laws and regulations which could materially affect the Company.

(XXV) PERFORMANCE OF SOCIAL RESPONSIBILITIES

During the Reporting Period, the Company actively explored the most suitable way of performing its social responsibilities while seeking to realize self-development. The Company made remarkable achievements in discharging social responsibilities throughout the year and received considerable recognitions from regulatory authorities and the general public. The Company received numerous awards such as the “Best Risk Control Award” (最佳風控獎) and the “Best Social Responsible Financial Institution Award” (最具社會責任金融機構獎) by China Banking Association.

Economic Responsibility: In 2016, the Company made positive response to the call of the Chinese government to require the financial sector to support the real economy. The Company turned such request into its operating strategy at the company level and took a series of measures to “maintain economic growth, promote restructuring and improve people’s livelihood”, and made remarkable achievements in supporting real economy development.

Environmental Responsibility: The Company actively implemented the “Green Credit Guidelines” (《綠色信貸指引》) and other requirements of regulatory institutions, strived to play an active role in the transition of economic growth pattern, supported the transformation of industrial structure and vigorously promoted the building of “green finance” and green operation.

Social Responsibility: The Company actively participates in social welfare undertakings for long term. It also leads the staff to devote themselves to volunteer’s activities and insists in carrying out a variety of charitable activities, including making donations for education, poverty and disaster relief and helping the disadvantaged groups. During this process, the Company formed a whole set of education-donation system covering primary school, middle school and colleges.

Please refer to “Social Responsibility Report” to be published separately on the websites of the Company and Hong Kong Stock Exchange for the information on the Company’s social responsibility work.

(XXVI) MISCELLANEOUS

- (1) As of the date of this report, the Company was not aware that any Shareholders had waived or agreed to waive any dividend arrangement.
- (2) As of the date of this report, none of the Directors waived or agreed to waive the related remuneration arrangements.
- (3) During the reporting period, there are no collateral and pledges of significant assets of the Company.

By Order of the Board
Shen Renkang
Chairman

Report of the Board of Supervisors

(I) LEGAL OPERATION

Our Company operated in accordance with law, and our decision-making procedure was compliant with the relevant provisions in the Company Law (《公司法》), the Commercial Banking Law (《商業銀行法》) and the Articles of Association of the Company. The directors, president and other senior management did not violate any laws and regulations or behave against the interests of our Company when they performed duties.

(II) TRUTHFULNESS OF FINANCIAL STATEMENTS

The 2016 annual financial report of our Company truthfully reflected the financial position and the operating results of the Company during the reporting period, and had been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, who had issued standard auditing reports without qualified opinion.

(III) ACQUISITION AND SALE OF ASSETS

No insider trading or behavior harming the interests of some Shareholders was found in the major acquisitions of the Company.

(IV) CONNECTED TRANSACTIONS

The connected transactions of our Company were fair and reasonable and were in compliance with national laws and regulations and the Articles of Association of our Company, and no behavior was found that had harmed the interests of our Company.

(V) INTERNAL CONTROL SYSTEM

During the reporting period, the Company established and implemented relatively complete, reasonable and effective internal control system, and no major defect was found in the internal control or its implementation.

(VI) IMPLEMENTATION OF RESOLUTIONS PASSED AT SHAREHOLDERS' GENERAL MEETINGS

The Board of Supervisors had no objection to the reports or proposals submitted by the Board of Directors to the Shareholders' general meeting. It supervised the implementation of resolutions passed at the Shareholders' general meetings and was of the opinion that the Board of Directors was able to implement the relevant resolutions earnestly.

Significant Events

(I) MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in certain legal proceedings in the ordinary course of business. Most of these litigations are filed by the Company in order to recover non-performing loans and include litigations because of disputes with customers. As of December 31, 2016, there were six pending litigations to which the Company was a defendant involving an amount of RMB1.905 million. The Company expects that such pending litigations will not materially and adversely affect the Company's business, financial position or operating results.

(II) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Significant events relating to custody, contracting and leasing

During the reporting period, none of the material contracts signed by the Company involved holding in custody, contracting or leasing any assets of other companies or vice versa beyond the normal business scope of a bank.

2. Significant guarantees

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the CBRC, there were no other significant guarantees required to be disclosed.

(III) MATERIAL PURCHASE, SALE OR DISPOSAL OF ASSETS AND CORPORATE MERGERS

The Company did not have any material purchase, sale or disposal of assets, or corporate mergers during the reporting period.

(IV) STOCK INCENTIVE PLAN

The Company did not implement a stock incentive plan during the reporting period.

(V) EMPLOYEE STOCK OWNERSHIP SCHEME

The Company did not implement an employee stock ownership scheme during the reporting period.

(VI) DISCIPLINARY ACTIONS IMPOSED ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SHAREHOLDERS HOLDING 5% OR MORE SHARES IN THE COMPANY

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, Board of Supervisors, the Supervisors and senior management of the Company and Shareholders holding 5% or more shares during the reporting period.

Significant Events

(VII) REVIEW OF ANNUAL RESULTS

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the financial statements of the Company prepared in accordance with the Chinese Accounting Standards and the International Financial Reporting Standards respectively, and issued standard unqualified auditing reports. The Board of Directors and the Audit Committee have reviewed the results and financial report of the Company for the year ended December 31, 2016.

(VIII) ANNUAL GENERAL MEETING

For the convening of its 2016 annual general meeting of the Company, the Company will make further announcement.

(IX) PUBLISHING THE ANNUAL REPORT

The English and Chinese version of the annual report prepared by the Company in accordance with IFRSs and Hong Kong Listing Rules will be available on the website of Hong Kong Stock Exchange and the Company's website.

(X) SUBSEQUENT EVENTS

On January 18, 2017, Zhejiang Zheyin Financial Leasing Co., Ltd. was incorporated in Zhoushan, Zhejiang, with the registered capital of RMB3 billion, in which the Company held 51% equity interest. Zhejiang Zheyin Financial Leasing Co., Ltd. became a subsidiary of the Bank.

Independent Auditor's Report

To the Shareholders of China Zheshang Bank Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION **What we have audit**

The financial statements of China Zheshang Bank Co., Ltd. (the "Bank"), set out on pages 133 to 232, which comprise:

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

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

KEY AUDIT MATTERS

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

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

- Impairment allowance of loans and advances to customers and debt instruments classified as receivables
- Consolidation assessment and disclosure of structured entities

Independent Auditor's Report

Key Audit Matter

Impairment allowance of loans and advances to customers and debt instruments classified as receivables

Please refer to Notes 12, 19, 20, and 41.1.6(d) to the financial statements.

As of December 31, 2016, the aggregated net balances of loans and advances to customers and debt instruments classified as receivables amounted to approximately RMB980.7 billion, representing 72% of total assets. The aggregated allowance for impairment losses for loans and advances to customers and debt instruments classified as receivables was RMB19.3 billion.

The Bank first assesses whether objective evidence of impairment exists individually. If the Bank determines that no objective evidence of impairment exists for an individually assessed loans and advances to customers and debt instruments classified as receivables, whether significant or not, it includes the asset in a group of loans and advances to customers and debt instruments classified as receivables with similar credit risk characteristics and collectively assesses them for impairment. Those that were individually assessed to be impaired were not included in collective assessment.

The assessment of impairment involved significant estimates and judgements of the Bank and had significant financial impact on the financial statements. Our key audit focuses include: individual assessment of the future cash flow forecasts, selection of key models, data, assumptions and parameters in collective assessment.

How our audit addressed the Key Audit Matter

We evaluated the design and tested the Bank's key controls over impairment calculation for loans and advances to customers and debt instruments classified as receivables. These controls include timely identification of loans and advances to customers and debt instruments classified as receivables where impairment were assessed on individual basis, and determination of key model, data, assumptions and parameters of impairment allowance for loans and advances to customers and debt instruments classified as receivables whose impairment were made on collective basis.

We also performed following substantive procedures:

Individual assessed impairment:

Where impairment was assessed on an individual basis, we examined, using sampling method, loans and advances to customers and debt instruments classified as receivables which had not been identified by the Bank as impaired, especially the overdue but not impaired loans and those loans in higher risk industries, whether the loss events had been identified timely and formed our judgement as to whether that was appropriate by obtaining external evidence in respect of the relevant counter parties. Where objective evidence of impairment had been identified, we assessed the assumptions, calculation and forecasts of future cash flows prepared by the Bank on sampling basis.

Collective assessed impairment:

Where impairment allowance was assessed on a collective basis, we assessed the impairment models used by the Bank under current economic environment to reflect the credit risk in loans and advances to customers and debt instruments classified as receivables. We also assessed key data, assumptions and parameters used by the Bank in its impairment model such as segmentation of the classification of rating, historical loss, loss identification period, adjustments for risks in specific industries, macro-economic environment.

Independent Auditor's Report

Key Audit Matter

Consolidation assessment and disclosure of structured entities

Please refer to Note 20 and 33 to the financial statements.

The Bank has managed and invested in a number of structured entities (primarily wealth management products, trust and asset management plans). The Bank assesses its control over these structured entities when determining whether to consolidate them. As of December 31, 2016, the balance of unconsolidated non-principal guaranteed wealth management products managed by the Bank was RMB429.1 billion, and the amount of investments in unconsolidated structured entities invested by the Bank disclosed in balance sheet was RMB540.1 billion.

Considering the significant balance regarding to the structured entities and significant judgments the Bank made to assess whether the Bank has control of the structured entities, it was identified to be a key area of audit focus.

Our focuses were on the following key aspects:

- The reasonableness of the Bank's consolidation assessment according to its analysis of the Bank's power over the structured entities, its variable returns from the structured entities, and whether the Bank uses its power over the structured entities to affect the returns.
- Whether the Bank's interests in unconsolidated structured entities was adequately disclosed in the financial statements.

How our audit addressed the Key Audit Matter

Based on the work undertaken, we considered the Bank's assessment on impairment of loans and advances to customers and debt instruments classified as receivables is supportable by available evidence.

For structured entities assessed and disclosed by the Bank, we performed the following tests:

We understood, evaluated and validated the Bank's internal controls over the management of structure entities. We also performed the following substantive procedures:

1. To assess whether the Bank should consolidate the structured entities, we checked the source data used by the Bank in the control analysis and reviewed related supporting documents through sampling tests and assessed whether the Bank had reasonably assessed factors regarding control.
2. To test the adequacy of the disclosures of unconsolidated structured entities, we:
 - Obtained and checked the information of the full list of unconsolidated structured entities managed and invested by the Bank and accessed the disclosure whether the information of nature, extent and risks associated with the Bank's interests in unconsolidated structured entities had been covered.
 - Enquired management to understand if the Bank had any current intentions to provide financial or other support to these unconsolidated structured entities, including intentions to assist these structured entities in obtaining financial support and validated whether it was disclosed properly.
 - Selected samples and reviewed relative supporting documents to test if the Bank had provided financial or other support to the unconsolidated structured entities managed by the Bank during the reporting period and whether relevant disclosures was adequate.

Based on the procedures we performed, we considered the consolidation assessment made by the Bank was supported by available evidence and the disclosures were appropriate.

Independent Auditor's Report

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, the directors are responsible for assessing the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Bank's financial reporting process.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Kwok Wai, Jimmy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 10, 2017

Statements of Comprehensive Income

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

		Year ended December 31,	
	Note	2016	2015
Interest income	4	54,676,458	47,429,810
Interest expense	4	(29,447,905)	(26,844,059)
Net interest income		25,228,553	20,585,751
Fee and commission income	5	7,666,105	4,193,813
Fee and commission expense	5	(191,018)	(92,857)
Net fee and commission income		7,475,087	4,100,956
Net trading gains or losses	6	10,134	2,073
Net gains on financial investments	7	725,339	329,792
Other operating income	8	214,229	111,813
Operating income		33,653,342	25,130,385
Operating expenses	9	(9,983,772)	(8,257,286)
Impairment losses on assets	12	(10,278,011)	(7,492,687)
Operating profit		13,391,559	9,380,412
Profit before income tax		13,391,559	9,380,412
Income tax expense	13	(3,238,411)	(2,329,722)
Net profit attributable to shareholders of the Bank		10,153,148	7,050,690
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on available-for-sale financial assets		(1,678,568)	1,077,424
Related income tax impact		419,642	(269,356)
Total other comprehensive income, net of tax		(1,258,926)	808,068
Total comprehensive income attributable to shareholders of the Bank		8,894,222	7,858,758
Basic and diluted earnings per share for profit attributable to shareholders of the Bank (in RMB yuan)	14	0.59	0.54

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

Statements of Financial Position

As at December 31, 2016

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

		December 31,	
	Note	2016	2015
ASSETS			
Cash and balances with central bank	15	124,269,106	87,649,741
Precious metal		3,952,824	1,848
Due from banks and other financial institutions	16	98,442,129	76,607,447
Financial assets at fair value through profit or loss	17	23,131,819	10,795,291
Derivative financial assets	18	4,780,282	458,534
Loans and advances to customers	19	443,668,657	335,228,940
Financial investments	20		
– Available-for-sale		61,466,941	49,117,403
– Held-to-maturity		41,532,932	29,042,163
– Debt instruments classified as receivables		537,036,109	431,893,606
Property, plant and equipment	21	3,045,701	2,444,632
Deferred income tax assets	22	4,601,026	2,105,271
Other assets	23	8,926,993	6,305,510
Total assets		1,354,854,519	1,031,650,386
LIABILITIES			
Due to banks and other financial institutions	24	394,108,821	354,657,357
Financial liabilities at fair value through profit or loss	26	13,875,609	500,020
Derivative financial liabilities	18	4,126,534	634,747
Customer deposits	25	736,243,698	516,026,296
Income tax payable		2,560,351	1,594,734
Other liabilities	28	21,868,878	18,644,132
Debt securities issued	27	114,595,250	89,936,036
Total liabilities		1,287,379,141	981,993,322
EQUITY			
Share capital	29	17,959,697	14,509,697
Capital reserve	29	19,990,020	12,181,167
Surplus reserve	30	3,790,406	2,775,091
Statutory general reserve	30	13,242,456	8,241,258
Investment revaluation reserve	31	(300,478)	958,448
Retained earnings		12,793,277	10,991,403
Total equity		67,475,378	49,657,064
Total liabilities and equity		1,354,854,519	1,031,650,386

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

The financial statements were approved by the Board of Directors on March 10, 2017 and were signed on its behalf.

Shen Renkang

Legal Representative,
Chairman of Board

Liu Xiaochun

Vice Chairman of Board,
President

Statements of Changes in Equity

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

	Share capital (Note 29)	Capital reserve (Note 29)	Surplus reserve (Note 30)	Statutory general reserve (Note 30)	Investment revaluation reserve (Note 31)	Retained earnings	Total
Balance at January 1, 2016	14,509,697	12,181,167	2,775,091	8,241,258	958,448	10,991,403	49,657,064
Net profit for the year	-	-	-	-	-	10,153,148	10,153,148
Other comprehensive income for the year	-	-	-	-	(1,258,926)	-	(1,258,926)
Total comprehensive income	-	-	-	-	(1,258,926)	10,153,148	8,894,222
Issuance of new shares	3,450,000	7,808,853	-	-	-	-	11,258,853
Appropriation to statutory surplus reserve	-	-	1,015,315	-	-	(1,015,315)	-
Appropriation to statutory general reserve	-	-	-	5,001,198	-	(5,001,198)	-
Cash dividend	-	-	-	-	-	(2,334,761)	(2,334,761)
Balance at December 31, 2016	17,959,697	19,990,020	3,790,406	13,242,456	(300,478)	12,793,277	67,475,378
Balance at January 1, 2015	11,506,872	6,535,858	2,070,022	4,639,490	150,380	8,247,550	33,150,172
Net profit for the year	-	-	-	-	-	7,050,690	7,050,690
Other comprehensive income for the year	-	-	-	-	808,068	-	808,068
Total comprehensive income	-	-	-	-	808,068	7,050,690	7,858,758
Issuance of new shares	3,002,825	5,645,309	-	-	-	-	8,648,134
Appropriation to statutory surplus reserve	-	-	705,069	-	-	(705,069)	-
Appropriation to statutory general reserve	-	-	-	3,601,768	-	(3,601,768)	-
Balance at December 31, 2015	14,509,697	12,181,167	2,775,091	8,241,258	958,448	10,991,403	49,657,064

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

Statements of Cash Flows

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

	Note	2016	2015
Year ended December 31,			
Cash flows from operating activities:			
Profit before income tax		13,391,559	9,380,412
Adjustments:			
Depreciation and amortization	9	236,275	208,126
Impairment losses on loans	12	8,418,854	6,157,343
Impairment losses on other assets	12	1,859,157	1,335,344
Net gains on de-recognition of financial investments		(725,339)	(329,792)
Fair value changes in financial assets at fair value through profit or loss and derivatives		76,908	(143,766)
Interest income from financial investments		(27,955,029)	(22,571,678)
Interest expense from debt securities issued	4	3,506,788	3,222,095
Net change in operating assets and operating liabilities:			
Net increase in restricted deposit balances with central bank		(30,802,358)	(12,591,530)
Net decrease in due from banks and other financial institutions		3,530,329	19,234,613
Net increase in financial assets at fair value through profit or loss		(12,973,336)	(6,377,951)
Net increase in loans and advances to customers		(116,935,528)	(89,093,635)
Net increase in other operating assets		(7,077,505)	(506,482)
Net increase in due to banks and other financial institutions		39,451,464	139,659,176
Net increase in customer deposits		220,217,402	152,746,408
Net increase in other operating liabilities		15,969,216	9,694,242
Cash from operating activities before tax		110,188,857	210,022,925
Income tax paid		(4,348,907)	(2,693,666)
Net cash from operating activities		105,839,950	207,329,259
Cash flows from investing activities:			
Dividends received		650	550
Purchase of property and equipment, intangible assets and other long-term assets		(946,255)	(855,178)
Interest received from financial investments		27,955,029	21,486,148
Proceeds from disposal and redemption of financial investments		749,328,379	506,494,547
Purchase of financial investments		(882,158,244)	(780,196,212)
Net cash used in investing activities		(105,820,441)	(253,070,145)

Statements of Cash Flows

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

	Year ended December 31,		
	Note	2016	2015
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		11,258,853	8,648,134
Proceeds from issuance of debt securities		102,537,396	139,655,389
Cash paid for repayment of debt securities		(77,878,182)	(98,300,000)
Interest paid on debt securities issued		(2,887,782)	(2,469,856)
Dividends paid on ordinary shares		(2,353,092)	(7,952)
Net cash from financing activities		30,677,193	47,525,715
Effect of exchange rate changes on cash and cash equivalents		485,316	2,729
Net increase in cash and cash equivalents		31,182,018	1,787,558
Cash and cash equivalents at beginning of the year		18,995,308	17,207,750
Cash and cash equivalents at end of the year	37	50,177,326	18,995,308
Net cash flows from operating activities including:			
Interest received		25,876,439	25,107,536
Interest paid		(24,724,668)	(20,009,154)

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

Notes to Financial Statements

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

1 GENERAL INFORMATION

The Bank is a national joint-stock commercial bank which was established in Zhejiang Province, the People's Republic of China (the "PRC") on July 26, 2004 with the approval from China Banking Regulatory Commission ("CBRC").

As of December 31, 2016, the registered capital of the Bank is Renminbi ("RMB") 17,959,697 thousand.

As of December 31, 2016, the Bank has established 170 branch outlets in 14 provinces (municipalities) in Mainland China, including 42 branches (21 of them are tier-one branches), one branch-level specialized institution and 127 sub-branches. The principal activities of the Bank include corporate and personal deposits, loans and advances, clearing and settlement service, treasury business and other banking service as approved by the CBRC.

The Bank was listed on The Stock Exchange of Hong Kong Limited on March 30, 2016.

These financial statements have been approved by the Bank's Board of Directors on March 10, 2017.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the relevant years presented unless otherwise stated.

2.1 Basis of presentation

The financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and requirements of the Hong Kong Companies Ordinance Cap. 622.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, precious metal and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

These financial statements have been prepared on a going concern basis.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

The Bank applied all relevant effective IFRSs in the preparation of the financial statements.

Standards, amendments and interpretations that have been issued but not yet effective and not been early adopted by the Bank as of December 31, 2016 are as follows:

		Effective for annual periods beginning on or after
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Amendments to IAS 7	Disclosure Initiatives	January 1, 2017
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amendments to IAS 40	Transfers of investment property	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
Amendments to IFRS 4	Insurance contracts regarding the implementation of IFRS 9, 'Financial instruments'	January 1, 2018
Amendments to IFRS 2	Share based payments, on clarifying how to account for certain types of share-based payment transactions	January 1, 2018
IFRS 16	Leases	January 1, 2019

Amendments to IAS 12

The amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses provide specific guidance to clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value.

Amendments to IAS 7

The amendments to IFRS 7: Disclosure Initiatives require entities to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

Amendments to IFRSs: Annual Improvements to IFRSs 2014-2016 Cycle

These amendments impact 3 standards: IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective on January 1, 2018. IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value.

IFRS 9

IFRS 9, published in July 2014 and effective for annual periods beginning on or after January 1, 2018, will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. The principle and guidance on recognition and derecognition of financial instruments in IAS 39 remains unchanged.

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

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

IFRS 9 (continued)

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

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

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an ‘earnings processes’ to an ‘asset-liability’ approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

Amendments to IAS 40

These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

IFRIC 22

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

Amendments to IFRS 4

These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will give all companies that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard — IAS 39.

Amendments to IFRS 2

This amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

IFRS 16

Under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The new standard will impact both the balance sheet and related ratios (capital adequacy ratio and leverage ratio), but the impact will not be material. As of December 31, 2016, the amounts of operating leasing commitment was RMB2.8 billion as disclosed. If the amounts were recognized on balance sheet as asset and liability, it has immaterial impact on total assets and liabilities. The impacts on capital adequacy ratio and leverage ratio are also immaterial.

Except the above mentioned impact of IFRS 9, the Bank expects adoption of the above new IFRS and amendments to IFRS issued but not yet effective will not have a material effect on the Bank's operating results, financial position or other comprehensive income.

2.2 Financial year

The financial year starts on January 1, and ends on December 31.

2.3 Functional currency

The functional currency of the Bank is RMB.

2.4 Interest income and expense

Interest income and expense for interest-bearing financial instruments is recognized in profit or loss using the effective interest method.

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

Interest on the impaired financial assets is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.5 Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are recognized over that period. For other services, fee and commission income are recognized when the transactions are completed.

2.6 Dividend income

Dividends are recognized when the right to receive payment is established.

2.7 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Bank in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits.

(a) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Bank recognizes the short term employee benefits payable for those services as a liability with a corresponding increase in the expenses in profit or loss. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

(b) Post-employment benefits

The Bank's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Bank makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions.

The employees of the Bank participate in an annuity scheme established by the Bank (the 'Annuity Scheme'). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the profit or loss when incurred. The Bank has no further obligation.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.8 Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Current income tax and movements in deferred tax balances are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled according to the requirements of tax laws. The Bank also considers the possibility of realization and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

2.9 Foreign currency translation

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

2.10 Cash and cash equivalents

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

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.11 Precious metals

Precious metals comprise gold and silver. All precious metals are related to the Bank's trading activities, which are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the income statement in the period in which they arise.

2.12 Financial instruments

Financial assets and liabilities are recognized in the statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized in profit or loss.

2.12.1 Financial assets

The Bank's financial assets are classified into four categories — financial assets at fair value through profit or loss ('FVTPL'), held-to-maturity investments, available-for-sale financial assets and, loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Financial assets at FVTPL have two subcategories — financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

2.12.1 Financial assets (continued)

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

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

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the profit or loss in the period in which they arise.

(b) *Held-to-maturity financial investments*

Held-to-maturity investments are non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

(c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

Financial assets classified as loans and receivables primarily include balances with central bank, due from banks and other financial institutions, loans and advances to customers, and debt instruments classified as receivables.

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

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the profit or loss.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

2.12.1 Financial assets (continued)

(e) *Impairment of financial assets*

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Bank at the end of the reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognized in profit or loss.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

2.12.1 Financial assets (continued)

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

(f) *Impairment of financial assets carried at amortized cost*

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the assets are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with floating interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a financial asset is considered uncollectible, it is written off against the allowance account after all necessary procedures have been performed and the loss amount has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in the debtor's credit rating, the previously recognized impairment loss is reversed through the profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(g) *Impairment of financial assets classified as available-for-sale*

When a decline in the fair value of a financial asset classified as available-for-sale has been recognized directly in other comprehensive income and accumulated in the investment revaluation reserve, and there is objective evidence that asset is impaired, the cumulative losses previously recognized in other comprehensive income are reclassified to the profit or loss in the period in which the impairment takes place.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

2.12.2 Financial liabilities

The Bank's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities carried at amortized cost.

(a) *Financial liabilities at fair value through profit or loss*

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising on re-measurement recognized directly in profit or loss in the period in which they arise.

(b) *Other financial liabilities*

Other financial liabilities are measured at amortized cost, using the effective interest method.

2.12.3 Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not clearly and closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value through profit or loss.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

2.12.4 Determination of fair value

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.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.12.5 De-recognition

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities are derecognized when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

2.12.6 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when both of the following conditions are satisfied: (i) the Bank has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Bank intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

2.12.7 Resale and repurchase agreements

Financial assets transferred as collateral in connection with standard repurchase agreements, involving fixed repurchase dates and prices are not derecognized. They continue to be recorded as 'investments classified as held-to-maturity investments', 'available-for-sale financial assets', 'debt instruments classified as receivables' or 'loans and advances to customers' as appropriate. The corresponding liability is included in 'due to banks and other financial institutions'.

Consideration paid for financial assets held under agreements to resell are recorded in 'due from banks and other financial institutions'.

Interest expense or income in profit or loss over the term of the agreements uses the effective interest method.

2.13 Property, plant and equipment

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

(a) Cost

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

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Property, plant and equipment (continued)

(a) Cost (continued)

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. Expenditures relating to ordinary maintenance of property, plant and equipment are recognized in profit or loss.

(b) Depreciation and impairment

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

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

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	30 years	5%	3.17%
Self-owned buildings improvements	10 years	5%	9.50%
Equipment	7 years	5%	13.57%
Motor vehicles	5 years	5%	19.00%

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

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 2.16.

(c) Disposal

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

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.14 Land use rights

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

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2.16.

2.15 Intangible assets

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

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.16.

2.16 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in profit or loss.

2.17 Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.18 Leases

Leases in which substantially all the risk and rewards of the ownership are transferred to the lessee are classified as financing lease. Other leases are operating lease.

Rental payments of operating lease are recognized in profit or loss according to the method of straight line during the lease term.

2.19 Dividend distribution

Dividend distribution to the Bank's shareholders is recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders meeting.

2.20 Wealth management

The Bank acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Bank and securities investment funds, insurance companies, trust companies, and other institutions and individuals. The Bank receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Bank's statement of financial position.

2.21 Entrusted loans

The Bank conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Bank grants loans to borrowers, as an intermediary, according to the instruction of its customers. The Bank is responsible for the arrangement and collection of the entrusted loans and receives commission for the services rendered. As the Bank does not assume the economic risks and rewards of the entrusted loans, they are not recognized as assets and liabilities of the Bank.

2.22 Financial guarantee contracts

Financial guarantees are contracts that require the Bank as the guarantor (the 'issuer') to make specified payments to reimburse the beneficiary of the guarantee (the 'holder') for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount less amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantees. Any increase in the liability relating to guarantees is taken to the profit or loss.

Notes to Financial Statements

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.23 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognized as a provision.

2.24 Segment reporting

The Bank determines the operating segments on the basis of the internal organizational structure, requirements of management and internal reporting system, and establishes the reporting segments on the basis of the operating segments and discloses the segment information. The Bank has determined the management team represented by the president as its chief operating decision maker.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Bank's accounting policies. There is no difference between the accounting policies used in the preparation of the Bank's financial statements and those used in preparing the operating segment information.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank continually evaluates the significant accounting estimates and key assumptions applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below.

Notes to Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(a) Impairment allowances for loans and advances to customers and debt instruments classified as receivables

The Bank regularly reviews its loans and advances to customers and debt instruments classified as receivables to assess impairment loss, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio before the decrease can be identified with loans and advances to customers and debt instruments classified as receivables in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in that portfolio (e.g. payment default), or national or local economic conditions that correlate with defaults on the portfolio in the bank. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and carrying amount. When loans and advances to customers and debt instruments classified as receivables are collectively assessed for impairment, Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred.

(b) Control over structured entity

Where the Bank acts as an agent or a principle of structured entities, the Bank makes judgment on whether it is the principal or an agent to assess whether the Bank controls the structured entities and should consolidate them. When performing this assessment, the Bank considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Bank's exposure to variability of returns from other interests (e.g. direct investment) that it holds in the structured entities. The Bank performs reassessment periodically.

Notes to Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(continued)*

(c) Fair value measurement of financial instruments

The Bank uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Bank and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the fair value measurement of financial instruments.

4 NET INTEREST INCOME

	Year ended December 31,	
	2016	2015
Interest income		
Balances with central bank	1,522,205	1,211,276
Due from banks and other financial institutions	2,282,799	4,388,954
Loans and advances to customers	21,262,865	18,905,466
Financial assets at fair value through profit or loss	664,322	352,436
Financial investments (i)	28,944,267	22,571,678
Subtotal	54,676,458	47,429,810
Including: Interest income from impaired financial assets	56,518	63,476
Interest expense		
Due to banks and other financial institutions	(12,816,233)	(12,402,691)
Customer deposits	(13,124,884)	(11,219,273)
Debt securities issued	(3,506,788)	(3,222,095)
Subtotal	(29,447,905)	(26,844,059)
Net interest income	25,228,553	20,585,751

Notes to Financial Statements

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

4 NET INTEREST INCOME (continued)

- (i) Interest income from financial investments is composed of listed financial investments and unlisted financial investments:

	Year ended December 31,	
	2016	2015
Interest income from listed financial investments	4,104,134	2,604,820
Interest income from unlisted financial investments	24,840,133	19,966,858
Total	28,944,267	22,571,678

Interest income from listed financial investments is principally derived from debt securities traded within China domestic interbank bond market.

5 NET FEE AND COMMISSION INCOME

	Year ended December 31,	
	2016	2015
Fee and commission income		
Wealth management business	5,416,548	2,131,103
Underwriting service	597,127	334,565
Credit commitment	446,021	483,520
Agency service	442,682	859,404
Custodian and other fiduciary service	192,334	158,955
Settlement business	158,351	84,386
Others	413,042	141,880
Total	7,666,105	4,193,813
Fee and commission expense	(191,018)	(92,857)
Net fee and commission income	7,475,087	4,100,956

Notes to Financial Statements

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

6 NET TRADING GAINS OR LOSSES

	Year ended December 31,	
	2016	2015
Net gains/(losses) from:		
Trading financial instruments	(752,168)	345,555
Derivative financial instruments	638,106	(371,486)
Exchange differences	124,196	28,004
Total	10,134	2,073

7 NET GAINS ON FINANCIAL INVESTMENTS

	Year ended December 31,	
	2016	2015
Net gains arising from de-recognition of available-for-sale	337,562	330,341
Other investment income/(loss)	387,777	(549)
Total	725,339	329,792

8 OTHER OPERATING INCOME

	Year ended December 31,	
	2016	2015
Government grants (i)	132,546	99,186
Dividend income	650	550
Gains on disposal of fixed assets	428	340
Other miscellaneous income	80,605	11,737
Total	214,229	111,813

- (i) Government grants mainly include the amount received from the Zhejiang Provincial Department of Finance for rewarding the Bank's contribution to the development of local economy.

Notes to Financial Statements

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

9 OPERATING EXPENSES

	Year ended December 31,	
	2016	2015
Staff costs (Note 10)	5,962,976	4,304,025
General and administrative expenses	2,646,701	2,046,851
Tax and surcharges	658,446	1,305,448
Rental expenses	429,611	342,303
Depreciation of property, plant and equipment (Note 21)	135,488	120,283
Amortization of long-term prepaid expenses	61,823	54,385
Amortization of intangible assets (Note 23(iii))	26,841	22,102
Amortization of land use rights (Note 23(ii))	12,123	11,356
Auditors' remuneration	5,780	6,150
Donations	5,229	14,015
Others	38,754	30,368
Total	9,983,772	8,257,286

10 STAFF COSTS

	Year ended December 31,	
	2016	2015
Salaries and bonuses	4,895,788	3,543,361
Pension costs – Defined contribution plans	373,049	270,155
Housing funds	183,057	126,561
Labor union fee and staff education expenses	134,323	96,173
Other social security and benefit costs	376,759	267,775
Total	5,962,976	4,304,025

Notes to Financial Statements

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

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

(a) Details of the directors' and supervisors' emoluments are as follows:

Year ended December 31, 2016

Name	Fees	Salaries	Allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive Directors						
Shen Renkang	-	450	55	222	169	896
Liu Xiaochun	-	1,500	77	3,400	267	5,244
Zhang Luyun	-	405	55	113	185	758
Xu Renyan	-	1,200	75	3,312	230	4,817
Non-Executive Directors						
Wang Yibing	-	-	-	-	-	-
Wang Mingde	-	-	-	-	-	-
Shen Xiaojun	-	-	-	-	-	-
Gao Qinrong	-	-	-	-	-	-
Hu Tiangao	-	-	-	-	-	-
Lou Ting	-	-	-	-	-	-
Zhu Weiming (v)	-	-	-	-	-	-
Wei Dongliang (iii)	-	-	-	-	-	-
Independent Non-Executive Directors						
Jin Xuejun	300	-	-	-	-	300
Tong Benli	300	-	-	-	-	300
Yuan Fang	300	-	-	-	-	300
Zheng Xinli (i)	100	-	-	-	-	100
Dai Deming	300	-	-	-	-	300
Liu Pak Wai	300	-	-	-	-	300
Zheng Jindu	300	-	-	-	-	300
Supervisors						
Yu Jianqiang	-	1,500	3	2,014	159	3,676
Tao Xuegen	-	-	-	-	-	-
Zhou Yang	-	-	-	-	-	-
He Xudong (vi)	-	-	-	-	-	-
Huang Haibo (iv)	-	-	-	-	-	-
Zheng Jianming (vii)	-	-	-	-	-	-
Dong Zhoufeng (vii)	-	-	-	-	-	-
Ge Lixin (vii)	-	-	-	-	-	-
Zhang Rulong (vii)	-	-	-	-	-	-
Jiang Zhihua	300	-	-	-	-	300
Yuan Xiaoqiang	300	-	-	-	-	300
Huang Zuhui	300	-	-	-	-	300
Wang Jun	300	-	-	-	-	300
Cheng Huifang (ii)	175	-	-	-	-	175
Total	3,275	5,055	265	9,061	1,010	18,666

Notes to Financial Statements

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

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (continued)

(a) Details of the directors' and supervisors' emoluments are as follows (continued):

Year ended December 31, 2015						
Name	Fees	Salaries	Allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive Directors						
Shen Renkang	-	865	65	-	141	1,071
Liu Xiaochun	-	1,200	55	-	193	1,448
Zhang Luyun	-	865	59	-	148	1,072
Xu Renyan	-	1,200	72	2,519	243	4,034
Non-Executive Directors						
Wang Yibing	-	-	-	-	-	-
Wang Mingde	-	-	-	-	-	-
Shen Xiaojun	-	-	-	-	-	-
Gao Qinhong	-	-	-	-	-	-
Hu Tiangao	-	-	-	-	-	-
Lou Ting	-	-	-	-	-	-
Wei Dongliang	-	-	-	-	-	-
Wang Kefei	-	-	-	-	-	-
Dou Xiufang	-	-	-	-	-	-
Wang Shuifu	-	-	-	-	-	-
Tao Xuegen	-	-	-	-	-	-
Zhou Yongli	-	-	-	-	-	-
Zhang Xianfei	-	-	-	-	-	-
Independent Non-Executive Directors						
Jin Xuejun	292	-	-	-	-	292
Tong Benli	275	-	-	-	-	275
Yuan Fang	275	-	-	-	-	275
Zheng Xinli	275	-	-	-	-	275
Dai Deming	275	-	-	-	-	275
Liu Pak Wai	275	-	-	-	-	275
Zheng Jindu	25	-	-	-	-	25
Chen Guoping	33	-	-	-	-	33
Qian Zihui	33	-	-	-	-	33
Xu Xinqiao	33	-	-	-	-	33
Supervisors						
Yu Jianqiang	-	1,100	1	-	113	1,214
Tao Xuegen	-	-	-	-	-	-
Zhou Yang	-	-	-	-	-	-
Huang Haibo	-	-	-	-	-	-
Zhang Xianfei	-	-	-	-	-	-
Lu Weiding	-	-	-	-	-	-
Zhong Zhexiao	-	-	-	-	-	-
Yan Jianwen	-	-	-	-	-	-
Wang Hua	-	-	-	-	-	-
Zheng Jianming (vii)	-	-	-	-	-	-
Dong Zhoufeng (vii)	-	-	-	-	-	-
Ge Lixin (vii)	-	-	-	-	-	-
Zhang Rulong (vii)	-	-	-	-	-	-
Yu Peixiang (vii)	-	-	-	-	-	-
Shen Lirong (vii)	-	-	-	-	-	-
Jiang Zhihua	292	-	-	-	-	292
Yuan Xiaoqiang	275	-	-	-	-	275
Huang Zuhui	275	-	-	-	-	275
Wang Jun	275	-	-	-	-	275
Feng Disheng	33	-	-	-	-	33
Zhou Jiansong	-	-	-	-	-	-
Total	2,941	5,230	252	2,519	838	11,780

Notes to Financial Statements

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

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (continued)

(a) Details of the directors' and supervisors' emoluments are as follows (continued):

- (i) Independent non-executive directors of the Bank, Zheng Xinli, resigned on April 27, 2016 for other work arrangements and the resignation effected immediately.
- (ii) At the 2015 Annual Extraordinary General Meeting of the Bank held on June 15, Cheng Huifang was appointed as external supervisor of the Bank.
- (iii) Independent non-executive directors of the Bank, Wei Dongliang, resigned on August 19, 2016 for other work arrangements and the resignation effected immediately.
- (iv) Supervisor of the Bank, Huang Haibo, resigned on August 19, 2016 for work adjustments and the resignation effected immediately.
- (v) At the first Extraordinary General Meeting of the Bank held on October 17, 2016, Zhu Weiming was appointed as non-executive director of the Bank.
- (vi) At the first Extraordinary General Meeting of the Bank held on October 17, 2016, He Xudong was appointed as supervisor of the Bank.
- (vii) Employee supervisors of the Bank receive remuneration as staff, and receive no remuneration as supervisors.
- (viii) Directors and supervisors of the Bank receive only remuneration in respect of their services as directors and supervisors. No emoluments was paid to or receivable by directors and supervisors in respect of their other services in connection with the management of the affairs of the bank or its subsidiary undertaking in any form.

The above total compensation packages for the directors and supervisors for the year ended December 31, 2016 have not been finalized. Management of the Bank believes that difference between the final emoluments and that disclosed above will not have significant impact on the financial information of the Bank. Upon disbursement, the final compensation will be disclosed.

Notes to Financial Statements

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

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals

For each of the years ended December 31, 2016, the five highest paid individuals in the Bank including zero director and zero supervisor (2015: zero director and zero supervisor).

The rest of the five highest paid individuals for the Relevant Periods are as follows:

	Year ended December 31,	
	2016	2015
Salaries and allowances and benefits	15,411	8,774
Discretionary bonuses	32,960	16,029
Contribution to pension schemes	568	928
Total	48,939	25,731

The emoluments fell within the following bands:

	Number of Individuals Year ended December 31,	
	2016	2015
RMB4,000,001 – RMB4,500,000	–	3
RMB4,500,001 – RMB5,000,000	–	1
RMB5,000,001 – RMB5,500,000	–	–
RMB6,000,001 – RMB6,500,000	–	–
RMB6,500,001 – RMB7,000,000	–	–
RMB7,000,001 – RMB7,500,000	–	–
RMB7,500,001 – RMB8,000,000	1	–
RMB8,000,001 – RMB8,500,000	1	–
RMB8,500,001 – RMB12,000,000	2	1
RMB12,000,001 – RMB12,500,000	1	–

No emoluments had been paid or payable by the Bank to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Bank or as compensation for loss of office.

During the year ended December 31, 2016, no non-cash benefits (share options, car, insurance premium, club membership, etc.) was paid to the directors or supervisors (2015: nil).

During the year ended December 31, 2016, no retirement benefit was paid to the directors or supervisors by a defined benefit pension plan operated by the Bank (2015: nil).

Notes to Financial Statements

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

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals (continued)

During the year ended December 31, 2016, no termination benefits was paid to the directors or supervisors operated by the Bank (2015: nil).

During the year ended December 31, 2016, no consideration was provided to former employers for making available directors' and supervisor' services by the Bank (2015: nil).

During the year ended December 31, 2016, no loan, quasi-loan or other dealings was provided in favour of directors, controlled bodies corporate by or connected entities (2015: nil).

During the year ended December 31, 2016, no significant transactions, arrangements and contracts was in relation to the corporate in which a director of the Bank had a material interest, whether directly or indirectly subsisted (2015: nil).

12 IMPAIRMENT LOSSES ON ASSETS

	Year ended December 31,	
	2016	2015
Loans and advances to customers (Note 19(b))		
– Collectively assessed	5,827,139	3,206,972
– Individually assessed	2,591,715	2,950,371
Debt instruments classified as receivables	1,856,673	1,320,527
Others	2,484	14,817
Total	10,278,011	7,492,687

13 INCOME TAX EXPENSE

	Year ended December 31,	
	2016	2015
Current income tax	5,314,524	3,453,071
Deferred income tax (Note 22)	(2,076,113)	(1,123,349)
Total	3,238,411	2,329,722

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Bank for the respective years.

Notes to Financial Statements

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

13 INCOME TAX EXPENSE (continued)

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended December 31,	
	2016	2015
Profit before income tax	13,391,559	9,380,412
Tax calculated at a tax rate of 25%	3,347,890	2,345,103
Tax effect arising from income not subject to tax (i)	(131,686)	(48,094)
Tax effect of expenses that are not deductible for tax purposes (ii)	22,207	32,713
Income tax expense	3,238,411	2,329,722

- (i) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.
- (ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which were not deductible for tax purposes according to PRC tax regulations.

14 BASIC AND DILUTED EARNINGS PER SHARE

- (a) Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the years.

	Year ended December 31,	
	2016	2015
Net profit attributable to shareholders of the Bank (in RMB thousands)	10,153,148	7,050,690
Weighted average number of ordinary shares in issue (in thousands)	17,092,484	13,037,079
Basic earnings per share (in RMB yuan)	0.59	0.54

(b) Diluted earnings per share

For the years ended December 31, 2016 and 2015, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

Notes to Financial Statements

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

15 CASH AND BALANCES WITH CENTRAL BANK

	December 31,	
	2016	2015
Cash	309,803	237,660
Mandatory reserve deposits with central bank (a)	106,348,030	75,555,586
Surplus reserve deposits with central bank (b)	17,600,970	11,856,106
Fiscal deposits	10,303	389
Total	124,269,106	87,649,741

- (a) The Bank is required to place mandatory reserve deposits and mandatory reserve for foreign forward exchange with the People's Bank of China ("PBOC"). These mandatory reserve are not available for use in the daily business of the Bank.

As of December 31, 2016, the mandatory reserve deposit rates of the Bank were as follows:

	December 31,	
	2016	2015
Mandatory reserve rate for deposits denominated in RMB (i)	14.5%	15%
Mandatory reserve rate for deposits denominated in foreign currencies (i)	5%	5%
Mandatory reserve rate for foreign forward exchange (ii)	20%	20%

- (i) Based on deposit balance at the end of reporting period.
(ii) Based on contractual amount of foreign forward exchange during the period.

- (b) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.

Notes to Financial Statements

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

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

December 31,

	2016	2015
Deposits with banks and other financial institutions	52,036,503	32,749,538
Securities purchased under resale agreements	44,487,285	29,051,000
Placements with banks and other financial institutions	1,918,341	696,097
Notes purchased under resale agreements	–	14,110,812
Total	98,442,129	76,607,447

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

December 31,

	2016	2015
Government bonds		
– Listed outside Hong Kong	3,609,537	1,369,283
Other debt securities		
– Listed outside Hong Kong	19,522,282	9,426,008
Total	23,131,819	10,795,291

As of December 31, 2016 and 2015, all financial assets at fair value through profit or loss of the Bank were held for trading.

As of December 31, 2016 and 2015, no financial assets at fair value through profit or loss were pledged to other banks under any repurchase agreements.

Debt securities traded within China domestic interbank bond market are included under the category of 'Listed outside Hong Kong'.

Notes to Financial Statements

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Financial assets at fair value through profit or loss analyzed by categories of the issuer were as follows:

	December 31,	
	2016	2015
Debt securities		
Issuers in the PRC		
– Government	3,609,537	1,369,283
– Banks and other financial institutions	19,205,523	4,709,895
– Corporates	316,759	4,716,113
Total	23,131,819	10,795,291

18 DERIVATIVE FINANCIAL INSTRUMENTS

Below listed the nominal value and fair value of derivative financial instruments held for trading:

	Nominal value	Fair value	
		Asset	Liability
December 31, 2016			
Swap contract	515,633,961	4,510,708	(3,772,549)
Option contract	25,290,255	73,066	(301,102)
Forward contract	3,623,253	196,508	(52,883)
Total	544,547,469	4,780,282	(4,126,534)
December 31, 2015			
Swap contract	170,140,599	441,958	(614,817)
Option contract	324,680	3,424	(1,854)
Forward contract	1,563,225	13,152	(18,076)
Total	172,028,504	458,534	(634,747)

Notes to Financial Statements

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

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	December 31,	
	2016	2015
Corporate loans and advances		
– Loans and advances	353,200,030	242,484,549
– Discounted bills	18,024,442	39,827,199
	371,224,472	282,311,748
Personal loans and advances		
– Personal business	73,203,499	60,304,266
– Residential mortgage loans	8,812,054	2,204,489
– Others	6,253,028	602,358
	88,268,581	63,111,113
Subtotal	459,493,053	345,422,861
Less: Allowance for impairment losses		
– Collectively assessed	(13,038,063)	(8,340,569)
– Individually assessed	(2,786,333)	(1,853,352)
Subtotal	(15,824,396)	(10,193,921)
Loans and advances to customers – net	443,668,657	335,228,940

Notes to Financial Statements

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

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Movements on allowance for losses on loans and advances to customers listed by assessment method

	December 31,			
	2016		2015	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment
Balance at beginning of the year	8,340,569	1,853,352	6,126,006	584,202
Net impairment allowances charged to profit or loss (Note 12)	5,827,139	2,591,715	3,206,972	2,950,371
Unwinding of discount on allowance	(36,321)	(20,197)	(51,290)	(12,186)
Write-offs	(830,415)	(483,588)	(627,127)	(495,705)
Transfer out	(370,829)	(1,180,504)	(355,558)	(1,215,028)
Recoveries	100,207	25,555	38,570	41,698
Exchange differences	7,713	-	2,996	-
Balance at end of the year	13,038,063	2,786,333	8,340,569	1,853,352

(c) Movements on allowance for losses on loans and advances to customers listed by customer category

	December 31,			
	2016		2015	
	Corporate loans and advances	Personal loans and advances	Corporate loans and advances	Personal loans and advances
Balance at beginning of the year	8,592,129	1,601,792	5,413,168	1,297,040
Net impairment allowances charged to profit or loss	6,992,361	1,426,493	5,655,375	501,968
Unwinding of discount on allowance	(35,626)	(20,892)	(41,124)	(22,352)
Write-offs	(1,024,714)	(289,289)	(921,206)	(201,626)
Transfer out	(1,551,333)	-	(1,570,586)	-
Recoveries	70,484	55,278	53,506	26,762
Exchange differences	7,713	-	2,996	-
Balance at end of the year	13,051,014	2,773,382	8,592,129	1,601,792

Notes to Financial Statements

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

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Loans listed by assessment method for allowance

December 31, 2016

	Identified impaired loans and advances (ii)				Subtotal	Total
	Loans and advances for which allowance is collectively assessed (i)	for which allowance is collectively assessed	for which allowance is individually assessed			
Corporate loans and advances	366,008,799	926,400	4,289,273	5,215,673	371,224,472	
Personal loans and advances	87,382,233	886,348	–	886,348	88,268,581	
Allowance for impairment losses	(11,710,905)	(1,327,158)	(2,786,333)	(4,113,491)	(15,824,396)	
Loans and advances to customers, net	441,680,127	485,590	1,502,940	1,988,530	443,668,657	

December 31, 2015

	Identified impaired loans and advances (ii)				Subtotal	Total
	Loans and advances for which allowance is collectively assessed (i)	for which allowance is collectively assessed	for which allowance is individually assessed			
Corporate loans and advances	278,587,473	930,767	2,793,508	3,724,275	282,311,748	
Personal loans and advances	62,602,479	508,634	–	508,634	63,111,113	
Allowance for impairment losses	(7,723,937)	(616,632)	(1,853,352)	(2,469,984)	(10,193,921)	
Loans and advances to customers, net	333,466,015	822,769	940,156	1,762,925	335,228,940	

- (i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been identified as impaired.
- (ii) Identified impaired loans and advances include loans for which objective evidence of impairment exists and have been identified as bearing impairment losses, which are measured either individually or collectively.

Notes to Financial Statements

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

20 FINANCIAL INVESTMENTS

	December 31,	
	2016	2015
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	61,283,045	48,072,368
– Interbank certificates of deposit	158,896	1,020,035
Unlisted		
– Equity securities	25,000	25,000
Total	61,466,941	49,117,403
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	41,532,932	29,042,163
Total	41,532,932	29,042,163
Debt instruments classified as receivables		
Unlisted		
– Trust plans and asset management plans sponsored by other financial institutions (i)	520,010,269	251,104,038
– Wealth management products sponsored by other banks	20,093,570	177,613,646
– Debt securities	400,000	–
– Interbank forfaiting	–	4,786,979
Subtotal	540,503,839	433,504,663
Less: Allowance for impairment losses	(3,467,730)	(1,611,057)
Debt instruments classified as receivables – Net	537,036,109	431,893,606

Debt instruments traded within China domestic interbank bond market are included under the category of 'Listed outside Hong Kong'.

Notes to Financial Statements

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

20 FINANCIAL INVESTMENTS (continued)

- (i) Trust plans and asset management plans sponsored by other financial institutions can be analyzed by security type and counterparty as follows:

	December 31,	
	2016	2015
Secured by:		
Guaranteed by third-party companies	38,997,955	28,194,900
Pledged by certificates of deposit	92,978,026	67,440,353
Collateralized by properties	20,260,016	7,572,675
Subtotal	152,235,997	103,207,928
Unsecured – by counterparty:		
Financial institutions	327,517,114	136,111,168
Corporates	40,257,158	11,784,942
Subtotal	367,774,272	147,896,110
Total	520,010,269	251,104,038

Notes to Financial Statements

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

20 FINANCIAL INVESTMENTS (continued)

Financial investments are analyzed by issuer or sponsor as follows:

	December 31,	
	2016	2015
Available-for-sale financial assets		
By issuer:		
– Government	12,433,316	8,831,872
– Banks and other financial institutions	36,067,512	33,052,926
– Corporates	12,941,113	7,207,605
Subtotal	61,441,941	49,092,403
Equity securities	25,000	25,000
Total	61,466,941	49,117,403
Held-to-maturity investments		
By issuer:		
– Government	22,541,355	9,712,756
– Banks and other financial institutions	18,991,577	19,079,407
– Corporates	–	250,000
Total	41,532,932	29,042,163
Debt instruments classified as receivables		
By sponsor:		
– Trusts and asset management plans sponsored by non-bank financial institutions	520,010,269	251,104,038
– Wealth management products sponsored by other banks	20,093,570	177,613,646
– Other products sponsored by other banks and non-bank financial institutions	400,000	4,786,979
Total	540,503,839	433,504,663
Less: Allowance for impairment losses	(3,467,730)	(1,611,057)
Debt instruments classified as receivables – Net	537,036,109	431,893,606

Notes to Financial Statements

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

21 PROPERTY, PLANT AND EQUIPMENT

	Buildings and improvements	Equipment	Motor vehicles	Construction in progress	Total
Cost					
At January 1, 2016	1,220,590	639,339	130,505	1,183,834	3,174,268
Additions	113,809	169,763	29,990	430,135	743,697
Transfer in/(out)	284,099	–	–	(284,099)	–
Disposals	–	(15,532)	(6,852)	–	(22,384)
Other	–	–	–	(5,347)	(5,347)
At December 31, 2016	1,618,498	793,570	153,643	1,324,523	3,890,234
Accumulated depreciation					
At January 1, 2016	(342,451)	(302,717)	(84,468)	–	(729,636)
Charge for the year	(48,054)	(72,567)	(14,867)	–	(135,488)
Disposals	–	14,301	6,290	–	20,591
At December 31, 2016	(390,505)	(360,983)	(93,045)	–	(844,533)
Net book value					
At December 31, 2016	1,227,993	432,587	60,598	1,324,523	3,045,701
Cost					
At January 1, 2015	1,218,023	524,418	118,910	586,481	2,447,832
Additions	547	120,812	20,614	600,080	742,053
Transfer in/(out)	2,120	607	–	(2,727)	–
Disposals	–	(6,460)	(9,019)	–	(15,479)
Other	(100)	(38)	–	–	(138)
At December 31, 2015	1,220,590	639,339	130,505	1,183,834	3,174,268
Accumulated depreciation					
At January 1, 2015	(298,947)	(245,843)	(78,533)	–	(623,323)
Charge for the year	(43,504)	(62,817)	(13,962)	–	(120,283)
Disposals	–	5,943	8,027	–	13,970
At December 31, 2015	(342,451)	(302,717)	(84,468)	–	(729,636)
Net book value					
At December 31, 2015	878,139	336,622	46,037	1,183,834	2,444,632

Notes to Financial Statements

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

22 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes related to income taxes levied by the same taxation authority. The movements for deferred tax assets and liabilities recognized are as follows:

	At January 1, 2016	Charged to profit or loss	Charged to other comprehensive income	At December 31, 2016
Deferred income tax assets:				
Impairment allowances for assets	1,891,140	2,086,068	-	3,977,208
Staff salary and welfare payable	566,000	(44,084)	-	521,916
Fair value changes of financial assets at fair value through profit or loss	-	144,969	-	144,969
Fair value changes of financial liabilities at fair value through profit or loss	-	16,737	-	16,737
Fair value changes of derivative instruments	44,054	(44,054)	-	-
Fair value changes of financial assets available for sale	-	-	100,159	100,159
Others	418	3,056	-	3,474
Subtotal	2,501,612	2,162,692	100,159	4,764,463
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	(65,012)	65,012	-	-
Fair value changes of derivative instruments	-	(163,437)	-	(163,437)
Fair value changes of financial assets available for sale	(319,483)	-	319,483	-
Others	(11,846)	11,846	-	-
Subtotal	(396,341)	(86,579)	319,483	(163,437)
Net deferred income tax	2,105,271	2,076,113	419,642	4,601,026

Notes to Financial Statements

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

22 DEFERRED INCOME TAXES (continued)

	At January 1, 2015	Charged to profit or loss	Charged to other comprehensive income	At December 31, 2015
Deferred income tax assets:				
Impairment allowances for assets	984,145	906,995	-	1,891,140
Staff salary and welfare payable	302,208	263,792	-	566,000
Fair value changes of derivative instruments	23,374	20,680	-	44,054
Others	69	349	-	418
Subtotal	1,309,796	1,191,816	-	2,501,612
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	(8,391)	(56,621)	-	(65,012)
Fair value changes of financial assets available for sale	(50,127)	-	(269,356)	(319,483)
Others	-	(11,846)	-	(11,846)
Subtotal	(58,518)	(68,467)	(269,356)	(396,341)
Net deferred income tax	1,251,278	1,123,349	(269,356)	2,105,271

23 OTHER ASSETS

	December 31,	
	2016	2015
Interest receivable (i)	4,890,326	4,095,911
Other receivables	1,731,477	706,794
Less: impairment allowance	(35,413)	(31,353)
Advance payments	847,433	173,840
Land use rights (ii)	462,001	382,503
Long-term prepaid expenses	332,221	321,622
Intangible assets (iii)	177,847	160,826
Guaranteed deposits paid	199,183	24,701
Foreclosed assets	33,960	33,960
Funds to be settled	14,610	86,475
Others	273,348	350,231
Total	8,926,993	6,305,510

Notes to Financial Statements

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

23 OTHER ASSETS (continued)

(i) Interest receivable

	December 31,	
	2016	2015
Financial investments and financial assets at fair value through profit or loss	3,510,495	2,521,257
Loans and advances to customers	1,168,425	788,290
Due from banks, other financial institutions and central bank	211,406	786,364
Total	4,890,326	4,095,911

(ii) Land use rights

	December 31,	
	2016	2015
Cost		
Balance at beginning of the year	437,162	437,162
Additions	91,621	-
Balance at end of the year	528,783	437,162
Accumulated amortization		
Beginning of the year	(54,659)	(43,303)
Amortization for the year	(12,123)	(11,356)
End of the year	(66,782)	(54,659)
Net book value		
End of the year	462,001	382,503

The net book value of land use rights is analyzed based on the remaining terms of the leases as follows:

	December 31,	
	2016	2015
Held outside Hong Kong		
– on medium-term lease (10-50 years)	462,001	382,503

Notes to Financial Statements

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

23 OTHER ASSETS (continued)

(iii) Intangible assets

Intangible assets of the Bank are mainly computer software.

	December 31,	
	2016	2015
Cost		
Balance at beginning of the year	270,735	216,703
Additions	43,862	54,032
Balance at end of the year	314,597	270,735
Accumulated amortization		
Balance at beginning of the year	(109,909)	(87,807)
Amortization for the year	(26,841)	(22,102)
Balance at end of the year	(136,750)	(109,909)
Net book value		
End of the year	177,847	160,826

24 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31,	
	2016	2015
Deposits from banks and other financial institutions	357,404,602	324,194,889
Placements from banks and other financial institutions	19,352,840	2,857,924
Securities sold under repurchase agreements	15,258,399	20,671,000
Notes sold under repurchase agreements	2,092,980	6,933,544
Total	394,108,821	354,657,357

Notes to Financial Statements

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

25 CUSTOMER DEPOSITS

	December 31,	
	2016	2015
Corporate demand deposits	256,737,966	179,985,599
Corporate time deposits	443,686,661	310,115,626
Individual demand deposits	7,501,155	6,381,855
Individual time deposits	26,046,656	15,298,848
Other deposits	2,271,260	4,244,368
Total	736,243,698	516,026,296
Including: Pledged deposits held as collateral	96,140,392	75,174,823

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31,	
	2016	2015
Financial liabilities related to precious metal contracts	13,846,049	500,020
Short sell of borrowed securities	29,560	–
Total	13,875,609	500,020

27 DEBT SECURITIES ISSUED

	December 31,	
	2016	2015
Fixed rate subordinated debts – 2021(i)	–	3,250,000
Fixed rate financial bonds– 2018 (ii)	1,500,000	1,500,000
Fixed rate financial bonds – 2019 (iii)	4,500,000	4,500,000
Fixed rate financial bonds – 2020 (iv)	5,000,000	5,000,000
Fixed rate financial bonds – 2021 (v)	10,000,000	–
Fixed-rate offering-tier 2 capital bond – 2026 (vi)	10,000,000	–
Interbank certificates of deposit	83,595,250	75,686,036
Total	114,595,250	89,936,036

Notes to Financial Statements

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

27 DEBT SECURITIES ISSUED (continued)

- (i) Fixed-rate subordinated debt of RMB3.25 billion was issued on November 25, 2011, with a maturity of 10 years and a fixed coupon rate of 6.50% per annum payable annually. The Bank redeemed all the debts at face value on November 28, 2016.
- (ii) Fixed-rate financial bond of RMB1.5 billion was issued on September 11, 2013, with a maturity of 5 years and a fixed coupon rate of 5.0% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iii) Fixed-rate financial bond of RMB4.5 billion was issued on March 10, 2014, with a maturity of 5 years and a fixed coupon rate of 5.7% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iv) Fixed-rate financial bond of RMB5 billion was issued on December 24, 2015, with a maturity of 5 years and a fixed coupon rate of 3.88% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (v) Fixed-rate financial bond of RMB10 billion was issued on February 24, 2016, with a maturity of 5 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (vi) Fixed-rate offering-tier 2 capital bond of RMB10 billion was issued on September 14, 2016, with a maturity of 10 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has an option to redeem all the debts at face value at the year end of 2021.

As of December 31, 2016, there are no defaults on principal and interest or other breaches to the agreements with respect to debt, bonds or interbank certificates of deposit.

28 OTHER LIABILITIES

	December 31,	
	2016	2015
Interest payable (i)	12,260,436	10,424,981
Salary and welfare payable (ii)	4,643,722	3,397,286
Settlement fund	3,611,447	1,758,182
Promissory notes and certified cheques issued	696,988	2,424,554
Sundry tax payables	134,889	427,893
Dividends payable	15,311	33,642
Deferred income	12,340	4,036
Others	493,745	173,558
Total	21,868,878	18,644,132

Notes to Financial Statements

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

28 OTHER LIABILITIES (continued)

(i) Interest payable

	December 31,	
	2016	2015
Customer deposits	9,113,358	6,834,399
Due to banks and other financial institutions	2,221,805	3,284,315
Debt securities issued	925,273	306,267
Total	12,260,436	10,424,981

(ii) Salary and welfare payable

	December 31,	
	2016	2015
Salary, bonus, and allowance	4,570,584	3,348,951
Labor union fee and staff education expenses	73,138	48,335
Total	4,643,722	3,397,286

29 SHARE CAPITAL AND CAPITAL RESERVE

All shares of the Bank issued are fully paid ordinary shares, with par value of RMB1 per share. The Bank's number of shares is as follows:

	December 31,	
	2016	2015
Number of shares authorized, issued and fully paid at par value (in thousands) (i)	17,959,697	14,509,697

- (i) On March 30, 2016, the Bank listed on Hong Kong Stock Exchange, and exercised all its Green Shoe Option on April 19, 2016. The total number of H shares issued globally was 3,795,000,000 (including 3,450,000,000 new H shares and 345,000,000 shares sold by selling shareholders). The offering price was HK \$3.96 per share, each share at the par value of 1.00 RMB.

Generally, transactions of the following nature are recorded in the capital reserve:

- Share premium arising from the issuance of shares at prices in excess of their par value;
- Donations received from shareholders; and
- Any other items required by the PRC regulations.

Capital reserve can be utilized for increasing paid-in capital as approved by the shareholders.

Notes to Financial Statements

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

29 SHARE CAPITAL AND CAPITAL RESERVE (continued)

(i) (continued)

As of December 31, 2016, the Bank's capital reserve is shown as follows:

	December 31,	
	2016	2015
Share premium (ii)	19,990,020	12,181,167

(ii) As described in Note 29(i), the bank recognized the share premium after deducting direct issuing costs (including underwriting fees and some other professional agency fees) as capital reserve.

30 SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Surplus reserve (i)	Statutory general reserve (ii)
Balance at January 1, 2016	2,775,091	8,241,258
Appropriation to statutory surplus reserve	1,015,315	-
Appropriation to statutory general reserve	-	5,001,198
Balance at December 31, 2016	3,790,406	13,242,456
Balance at January 1, 2015	2,070,022	4,639,490
Appropriation to statutory surplus reserve	705,069	-
Appropriation to statutory general reserve	-	3,601,768
Balance at December 31, 2015	2,775,091	8,241,258

(i) Surplus reserve

Pursuant to the relevant PRC regulations, the Bank is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserve amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalization is not less than 25% of the ordinary share capital before capitalization.

(ii) Statutory general reserve

Pursuant to Caijin [2012] No. 20 'Requirements on Impairment Allowance for Financial Institutions' (the 'Requirement'), effective on July 1, 2012, on the basis of impairment allowance, the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The statutory general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

Notes to Financial Statements

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

31 INVESTMENT REVALUATION RESERVE

	Pre-tax amount	Tax charge	Net of tax
Balance at January 1, 2016	1,277,931	(319,483)	958,448
Fair value changes in available-for-sale	(1,341,006)	335,251	(1,005,755)
Less: Amounts previously recognized in other comprehensive income reclassified to profit or loss	(337,562)	84,391	(253,171)
Balance at December 31, 2016	(400,637)	100,159	(300,478)
Balance at January 1, 2015	200,507	(50,127)	150,380
Fair value changes in available-for-sale	1,407,765	(351,941)	1,055,824
Less: Amounts previously recognized in other comprehensive income reclassified to profit or loss	(330,341)	82,585	(247,756)
Balance at December 31, 2015	1,277,931	(319,483)	958,448

32 DIVIDENDS

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- Making up prior year's cumulative losses, if any;
- Appropriation to the non-distributable statutory surplus reserve of 10% of the net profit of the Bank.

In accordance with the relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with the Chinese Accounting Standard and (ii) the retained profit determined in accordance with IFRS.

As approved by the General Meeting on June 15, 2016, the Bank paid a cash dividend of RMB1.3 (before tax) for each 10 ordinary share, totaling RMB2,334,761 thousand.

On March 10, 2017, the Board of Directors of the Bank proposed to appropriate RMB4,001,274 thousand in year 2017 to the statutory general reserve of year 2016 and a cash dividend of RMB1.7 (before tax) for each 10 ordinary shares, totalling RMB3,053,148 thousand. The proposal will be subjected to the approval by the shareholders in the forthcoming General Meeting of the Bank.

Notes to Financial Statements

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

33 UNCONSOLIDATED STRUCTURED ENTITIES

(a) Unconsolidated structured entities managed by the Bank

The unconsolidated structure entities managed by the Bank are wealth management products sponsored and managed by the Bank acting as an agent. Based on the analysis and research of the potential target customers, the Bank designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in relevant financial markets or financial products in accordance with the contractual term of the product agreements. Investment returns would be allocated to investors according to contractual agreements. The Bank receives commission income as the manager of these wealth management products. The Bank considered its variable returns from its involvement with the structured entities are insignificant and hence it does not consolidate these structured entities.

The wealth management products sponsored and managed by the Bank were mainly invested in bonds and money market instruments, non-standard debt assets and equity investment. The Bank set admission principles for investment structures, underlying investments, withdrawing and security measures of these investments and managed them through pre-investment due diligence, business review, draw down approval and post-investment monitoring, etc. As of December 31, 2016, there is no objective evidence of impairment for these investments.

As of December 31, 2016, the balance of unconsolidated wealth management products sponsored and managed by the Bank in terms of size amounted to RMB429,106 million (December 31, 2015: RMB213,856 million). The Bank's maximum exposure to these unconsolidated structured entities is presented by management fees receivable which amount is insignificant.

During the years ended December 31, 2015 and 2016, the Bank did not provide financial or other support to these structured entities. The Bank did not have any current intention to provide financial or other support to these structured entities, including intentions to assist these structured entity in obtaining financial support.

(b) Unconsolidated structured entities invested by the Bank

As of December 31, 2016 and 2015, the Bank invests in a number of unconsolidated structured entities mainly consisting of wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

During the years ended December 31, 2016 and 2015, the Bank did not provide financial or other support to these structured entities.

Notes to Financial Statements

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

33 UNCONSOLIDATED STRUCTURED ENTITIES (continued)

(b) Unconsolidated structured entities invested by the Bank (continued)

The table below sets out the carrying value and the Bank's maximum exposure (including interest receivable) to these unconsolidated structured entities.

	Carrying value	Maximum exposure to loss
At December 31, 2016		
Debt instruments classified as receivables		
– Wealth management products sponsored by other banks	20,093,570	20,093,570
– Trust plans and asset management plans sponsored by other financial institutions	520,010,269	521,006,432
At December 31, 2015		
Debt instruments classified as receivables		
– Wealth management products sponsored by other banks	177,613,646	177,613,646
– Trust plans and asset management plans sponsored by other financial institutions	251,104,038	251,735,711

34 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantee and other credit commitments

	December 31,	
	2016	2015
Acceptances	164,360,672	122,164,834
Letters of credit issued	128,676,586	88,744,036
Letters of guarantee issued	43,601,377	43,030,538
Loan commitments	3,061,032	5,388,500
Unused credit card limit	11,177,797	2,806,182
Total	350,877,464	262,134,090

(b) Capital commitment

	December 31,	
	2016	2015
Authorized but not contracted	2,810,696	97,083
Contracted but not yet incurred	1,084,160	375,839
Total	3,894,856	472,922

Notes to Financial Statements

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

34 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Operating leasing commitment

The future minimum lease payments under irrevocable rental contract are listed as follows:

	December 31,	
	2016	2015
Within one year	477,992	370,139
Between one year and five years	1,494,106	1,195,678
More than five years	834,143	510,769
Total	2,806,241	2,076,586

(d) Legal proceedings

As of December 31, 2016, the management of the Bank believes the legal proceedings initiated against the Bank would not have a material impact on the Bank's the financial position or operations (December 31, 2015: nil).

35 ASSETS PLEDGED

	December 31,	
	2016	2015
Bonds	32,588,407	35,095,222
Bills	2,100,808	6,937,716
Total	34,689,215	42,032,938

Assets above are pledged as collateral mainly for the repurchase agreements with other financial institutions, securities lending, Medium-term Lending Facility.

36 CREDIT RISK-WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

	December 31,	
	2016	2015
Financial guarantees and credit related commitments	90,666,765	73,269,343

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weightings used range from 0% to 100% for contingent liabilities and credit related commitments.

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

37 CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	December 31,	
	2016	2015
Cash	309,803	237,660
Surplus deposit reserve with central bank	17,600,970	11,856,106
Deposits and placements with banks and other financial institutions	32,266,553	6,901,542
Total	50,177,326	18,995,308

38 RELATED PARTY TRANSACTIONS

Related party transactions of the Bank mainly refer to loans and deposits, which are proceeded in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with main related party

	Shareholding Ratio (%)	
	December 31,	
	2016	2015
Name of Shareholder		
Zhejiang Provincial Financial Holdings Co., Ltd.	14.79	19.96

As of December 31, 2016, Zhejiang Provincial Financial Holdings Co., Ltd. ("ZJFH")'s balance of deposits with the Bank was RMB4,617,999 thousand (December 31, 2015: RMB2,292,634 thousand). For the year ended December 31, 2016, the amount of interest expense for ZJFH's deposit with the Bank was RMB10,720 thousand (2015: RMB17,902 thousand).

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

38 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with other related parties

- (i) Balance and relevant interest rate spectrum of transactions with other shareholders (including their subsidiaries) who have influence over financial and operating policies of the Bank are as follows:

	December 31,	
	2016	2015
Customer deposits	3,905,663	7,938,165
Loans and advances to customers	776,260	1,006,560
Acceptances	148,173	166,590
Domestic letter of credit	48,000	–
Letters of guarantee	5,000	–

	December 31,	
	2016	2015
Loans and advances to customers	4.35%-5.34%	4.35%-6.42%
Customer deposits	0.35%-1.95%	0.35%-4.80%

- (ii) Transactions with other shareholders (including their subsidiaries) who have influence over financial and operating policies of the Bank during the year are as follows:

	Year ended December 31,	
	2016	2015
Interest income	36,913	59,170
Interest expense	243,899	41,888
Fee and commission income	35,256	743

Notes to Financial Statements

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

38 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with other related parties (continued)

(iii) The amounts and relevant interest rate spectrum of transactions with the Bank's directors, supervisors and senior management and their family members are as follows:

	December 31,	
	2016	2015
Customer deposits	4,984	2,645

	December 31,	
	2016	2015
Customer deposits	0.35%-5.10%	0.35%-5.10%

	Year ended December 31,	
	2016	2015
Interest expense	1	22
Fee and commission income	2	1

In addition, Yongli Properties Group Limited, which is under control of the Bank's supervisor Zhou Yang's immediate family, provides two business occupancy rental services for Shaoxing Branch of the Bank: 1) the lease term starts from December 1, 2016 until November 30, 2021, for a period of five years. The annual rent is RMB3,000 thousand for the first two years; for the third to the fifth year, the rent rises by 5% on the basis of the second year. 2) the lease term starts from May 1, 2016 until November 30, 2021, for a period of five years and seven months, with the annual rent of RMB650 thousand.

(c) Government related entities

The transactions between the Bank and the government authorities, agencies, affiliates and other state controlled entities proceed under normal commercial terms and conditions. These transactions mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency service, underwriting of bonds issued by government agencies, purchases, sales and redemption of securities issued by government agencies. Management considers that transactions with these entities are activities conducted in the ordinary course of business. The Bank has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

Notes to Financial Statements

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

38 RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank.

The Bank enters into banking transactions with key management personnel in the normal course of business. During the years ended December 31, 2016 and 2015, the Bank had no material banking transactions with key management personnel.

The emoluments of directors and other members of key management during the years were as follows:

	Year ended December 31,	
	2016	2015
Fees	1,900	1,792
Salaries and allowances and benefits	13,205	12,005
Discretionary bonuses	25,429	11,867
Contribution to pension	2,274	2,073
Total	42,808	27,737

39 SEGMENT REPORTING

(a) Business segments

The Bank manages its operations from both business and geographic perspectives. From the business perspective, the Bank provides services through four main business segments listed below:

- Corporate banking – The corporate banking segment provides financial products and services to corporations, government agencies and other institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products and other types of corporate intermediary services, etc..
- Retail banking – The retail banking segment provides financial products and services to individual customers. The range of products and services includes personal loans and advances, deposit products, bank cards business and other types of personal intermediary services.
- Treasury business – The treasury business conducts money market and repurchase transactions, debt instruments investments, financial derivatives business for proprietary trading or on behalf of customers, financial products and services provided to other financial institutions.
- Others – Others comprise components of the Bank that are not attributable to any of the above segments.

Notes to Financial Statements

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

39 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Year ended December 31, 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	24,945,936	4,605,178	25,125,344	–	54,676,458
External interest expense	(12,662,992)	(461,893)	(16,323,020)	–	(29,447,905)
Inter-segment net interest income/ (expenses)	3,391,439	(1,111,658)	(2,279,781)	–	–
Net interest income	15,674,383	3,031,627	6,522,543	–	25,228,553
Net fee and commission income	1,764,486	76,632	5,633,969	–	7,475,087
Net trading gains	–	–	10,134	–	10,134
Net gains on financial investments	387,777	–	337,562	–	725,339
Other operating income	84,463	24,645	28,069	77,052	214,229
Operating expenses	(5,509,153)	(786,737)	(3,672,020)	(15,862)	(9,983,772)
– Depreciation and amortization	(101,769)	(13,674)	(120,616)	(216)	(236,275)
Impairment losses on assets	(8,845,233)	(1,432,778)	–	–	(10,278,011)
Profit before income tax	3,556,723	913,389	8,860,257	61,190	13,391,559
Capital expenditure	431,087	64,303	448,735	2,130	946,255

	December 31, 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	615,137,846	91,756,149	640,319,661	3,039,837	1,350,253,493
Unallocated assets					4,601,026
Total assets					1,354,854,519
Segment liabilities	(715,326,617)	(34,582,561)	(533,326,820)	(4,143,143)	(1,287,379,141)

Notes to Financial Statements

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

39 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Year ended December 31, 2015				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	19,046,623	3,960,130	24,423,057	-	47,429,810
External interest expense	(10,689,837)	(529,436)	(15,624,786)	-	(26,844,059)
Inter-segment net interest income/ (expenses)	2,841,180	(1,240,937)	(1,600,243)	-	-
Net interest income	11,197,966	2,189,757	7,198,028	-	20,585,751
Net fee and commission income	1,830,229	24,792	2,245,935	-	4,100,956
Net trading gains	-	-	2,073	-	2,073
Net gains on financial investments	-	-	329,792	-	329,792
Other operating income	37,754	18,964	8,576	46,519	111,813
Operating expenses	(5,000,526)	(947,259)	(2,277,102)	(32,399)	(8,257,286)
– Depreciation and amortization	(105,532)	(17,419)	(85,052)	(123)	(208,126)
Impairment losses on assets	(6,987,969)	(504,718)	-	-	(7,492,687)
Profit before income tax	1,077,454	781,536	7,507,302	14,120	9,380,412
Capital expenditure	366,459	54,797	433,909	13	855,178

	December 31, 2015				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	441,178,017	65,969,587	522,381,314	16,197	1,029,545,115
Unallocated assets					2,105,271
Total assets					1,031,650,386
Segment liabilities	(504,222,345)	(23,470,603)	(454,263,462)	(36,912)	(981,993,322)

Notes to Financial Statements

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

39 SEGMENT REPORTING (continued)

(b) Geographical segments

Geographically, the Bank mainly conducts its business in the four areas listed below in Mainland China.

- ‘Eastern China’ refers to the head office and the following areas serviced by the tier-one branches of the Bank: Head Office, Hangzhou, Ningbo, Wenzhou, Yiwu, Shaoxing, Shanghai, Nanjing, Suzhou, Zhoushan;
- ‘Northern China’ refers to the following areas serviced by the tier-one branches of the Bank: Beijing, Tianjin, Jinan, Shenyang;
- ‘Southern China’ refers to the following areas serviced by the tier-one branches of the Bank: Shenzhen, Guangzhou; and
- ‘Midwestern China’ refers to the following areas serviced by the tier-one branches of the Bank: Chengdu, Xi’an, Lanzhou, Chongqing, Wuhan, Zhengzhou.

Year ended December 31, 2016

	Eastern China	Northern China	Southern China	Midwestern China	Elimination	Total
External interest income	33,892,477	9,564,871	2,722,903	8,496,207	-	54,676,458
External interest expense	(19,072,024)	(5,371,226)	(1,595,549)	(3,409,106)	-	(29,447,905)
Inter-segment net interest income/(expenses)	724,856	40,935	131,623	(897,414)	-	-
Net interest income	15,545,309	4,234,580	1,258,977	4,189,687	-	25,228,553
Net fee and commission income	5,174,702	1,023,064	479,848	797,473	-	7,475,087
Net trading gains	9,737	228	36	133	-	10,134
Net gains on financial investments	367,907	248,969	42,478	65,985	-	725,339
Other operating income	153,133	11,975	2,451	46,670	-	214,229
Operating expenses	(6,440,862)	(1,576,535)	(587,307)	(1,379,068)	-	(9,983,772)
– Depreciation and amortization	(176,763)	(27,899)	(6,176)	(25,437)	-	(236,275)
Impairment losses on assets	(6,328,098)	(1,532,157)	(578,585)	(1,839,171)	-	(10,278,011)
Profit before income tax	8,481,828	2,410,124	617,898	1,881,709	-	13,391,559
Capital expenditure	630,862	115,342	18,612	181,439	-	946,255

Notes to Financial Statements

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

39 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

December 31, 2016						
	Eastern China	Northern China	Southern China	Midwestern China	Elimination	Total
Segment assets	1,300,381,130	275,332,329	99,138,703	217,967,292	(542,565,961)	1,350,253,493
Unallocated assets						4,601,026
Total assets						1,354,854,519
Segment liabilities	(1,241,584,216)	(273,819,160)	(98,814,535)	(215,727,191)	542,565,961	(1,287,379,141)

Year ended December 31, 2015						
	Eastern China	Northern China	Southern China	Midwestern China	Elimination	Total
External interest income	29,289,824	9,671,093	1,721,703	6,747,190	-	47,429,810
External interest expense	(16,481,188)	(5,701,501)	(884,777)	(3,776,593)	-	(26,844,059)
Inter-segment net interest income/(expenses)	467,882	(31,429)	317,099	(753,552)	-	-
Net interest income	13,276,518	3,938,163	1,154,025	2,217,045	-	20,585,751
Net fee and commission income	3,296,089	392,465	53,828	358,574	-	4,100,956
Net trading gains	2,073	-	-	-	-	2,073
Net gains on financial investments	329,792	-	-	-	-	329,792
Other operating income/ (expenses)	136,445	(40,647)	1,246	14,769	-	111,813
Operating expenses	(5,455,636)	(1,464,447)	(326,692)	(1,010,511)	-	(8,257,286)
– Depreciation and amortization	(160,605)	(26,451)	(4,327)	(16,743)	-	(208,126)
Impairment losses on assets	(5,510,632)	(859,454)	(166,874)	(955,727)	-	(7,492,687)
Profit before income tax	6,074,649	1,966,080	715,533	624,150	-	9,380,412
Capital expenditure	280,558	20,685	21,397	532,538	-	855,178

Notes to Financial Statements

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

39 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	December 31, 2015					
	Eastern China	Northern China	Southern China	Midwestern China	Elimination	Total
Segment assets	965,153,651	237,892,641	63,370,751	145,154,525	(382,026,453)	1,029,545,115
Unallocated assets						2,105,271
Total assets						1,031,650,386
Segment liabilities	(920,763,520)	(236,220,351)	(63,025,891)	(144,010,013)	382,026,453	(981,993,322)

40 SUBSEQUENT EVENTS

On January 18, 2017, Zhejiang Zhe Yin Financial Leasing Co., Ltd (“Zhe Yin Leasing”) was established in Zhoushan, Zhejiang Province, with registered capital of RMB 3 billion. The Bank owned 51% of Zhe Yin Leasing, and therefore, Zhe Yin Leasing became the subsidiary of the Bank.

41 FINANCIAL RISK MANAGEMENT

Overview

The Bank’s activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing those risks are crucial to the financial business, and operational risks are an inevitable consequence of being in business. The Bank’s aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank’s financial performance.

The Bank’s risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Board of Directors is responsible for establishing the overall risk appetite of the Bank, and reviewing and approving its risk management objectives and strategies. Management establishes and implements corresponding risk management policies and procedures according to the risk management objectives and strategies. Internal audit department is responsible for the independent review of risk management and the internal control.

The primary financial risks the Bank is exposed to are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk

41.1.1 Credit risk measurement

The Bank is exposed to credit risk, which is the risk that counterparty will be unable to or unwilling to meet its obligations under a contract. Credit risk increases when the counterparties are within similar geographical or industry segments. Credit exposures arise principally from loans and advances, debt instruments, and due from banks and other financial institutions. There is also credit risk arising from off-balance sheet credit exposure such as loan commitments. Management carefully manages its exposure to credit risks. The daily credit risk management and control are centralized in the risk management department of head office and reported to management regularly.

The Bank performs standardized credit management procedures, including credit due diligence and proposal submission, credit review and approval, loan disbursement, post-lending monitoring and non-performing loan management. The Bank enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading the credit management system.

Apart from the credit risk exposures from loan assets, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate credit limits subject to hierarchical authorization and by timely reviewing and adjusting those limit in credit system. In addition, the Bank also provides off-balance sheet commitments and financial guarantee services to customers which may require the Bank to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.2 Impairment assessment

In accordance with the 'Guideline for Loan Credit Risk Classification' issued by the CBRC, the Bank has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Bank classifies loans into the following five categories: pass, special-mention, substandard, doubtful and loss. Loans classified as substandard, doubtful and losses are regarded as non-performing loans. The primary factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which reflect borrowers' repayment ability, repayment record and intention, projected profitability, bank guarantees or collateral and legal responsibility of repayment. The allowance for impairment losses is assessed collectively or individually, as appropriate.

The five categories of loan classification into which the Bank classifies its loans and advances to customers are set out below:

- **Pass:** Borrowers can honor 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 able to service their loans currently, 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 operating income 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 recognized even when collateral or guarantees are invoked.
- **Loss:** Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

With respect to investments in debt instruments other than financial assets at fair value through profit or loss, the Bank assesses for indicators of impairment at the end of each reporting period based on objective evidence and performs impairment assessment individually or collectively, as appropriate.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.3 Risk limit control and mitigation policies

The Bank prudently manages and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and regions. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The Bank employs a range of policies and practices to mitigate credit risk. The most prevalent of these means to mitigate credit risk taken by the Bank include the collaterals acquired, pledged deposits and corporate or individual guarantees.

The Bank implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral are as follows:

- Residential properties
- Business assets such as premises, inventory and accounts receivable
- Financial instruments such as debt securities and stocks

The fair value of collaterals should be assessed by professional valuation firms appointed by the Bank. The Bank has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collaterals. The principal types of collateral and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral	Maximum loan-to-value ratio
Time deposits	90%
PRC treasury bonds	90%
Financial institution bonds	80%
Residential property, commercial property, industrial plants and land use rights	70%
Vehicles	60%
General equipment	50%
Special equipment	30%

For loans guaranteed by a third-party guarantor, the Bank will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements:

	December 31,	
	2016	2015
Assets		
Balances with central bank	123,959,303	87,412,081
Due from banks and other financial institutions	98,442,129	76,607,447
Financial assets at fair value through profit or loss	23,131,819	10,795,291
Derivative financial assets	4,780,282	458,534
Loans and advances to customers	443,668,657	335,228,940
Financial investments		
– Available-for-sale	61,441,941	49,092,403
– Held-to-maturity	41,532,932	29,042,163
– Debt instruments classified as receivables	537,036,109	431,893,606
Other financial assets	5,210,706	4,217,696
Subtotal	1,339,203,878	1,024,748,161
Off-balance sheet exposures		
Acceptances	164,360,672	122,164,834
Letters of credit issued	128,676,586	88,744,036
Letters of guarantee issued	43,601,377	43,030,538
Loan commitments	3,061,032	5,388,500
Unused credit card limit	11,177,797	2,806,182
Subtotal	350,877,464	262,134,090
Total	1,690,081,342	1,286,882,251

The above table represents a worst-case scenario of credit risk exposure to the Bank as of December 31, 2016, without taking into account of any related collateral or other credit enhancements. For on-balance-sheet assets, the exposures above are based on net book value as reported in the statement of financial position.

41.1.5 Due from banks and other financial institutions and derivative instruments

The Bank's treasury business is exposed to the credit risk associated with the investment business and inter-bank business. The Bank manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly. As of December 31, 2016, the Bank's balance of due from banks and other financial institutions as well as derivative instruments were neither overdue nor impaired (December 31, 2015: nil).

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers

(a) Analysis of loans and advances to customers by industry

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Corporate loans and advances				
Manufacturing	82,223,489	17.90	50,795,800	14.72
Wholesale and retail trade	64,730,164	14.09	36,978,096	10.71
Leasing and commercial services	56,026,555	12.19	37,390,404	10.82
Real estate	55,305,239	12.04	39,878,330	11.55
Construction	26,045,725	5.67	21,415,271	6.20
Administration of water conservancy, environment and public facilities	23,900,015	5.20	21,764,906	6.30
Transportation, storage and postal service	7,448,445	1.62	6,540,180	1.89
Electricity, gas and water production and supply	6,588,230	1.43	3,774,675	1.09
Financing	5,358,641	1.17	5,931,548	1.72
Mining	4,857,390	1.06	3,985,721	1.15
Agriculture, forestry, animal husbandry and fishery	3,837,283	0.84	1,596,036	0.46
Accommodation and catering	3,835,856	0.83	3,856,737	1.12
Information transmission, computer services and software	3,132,538	0.68	1,471,659	0.43
Culture, sports and entertainment	2,722,151	0.59	2,185,286	0.63
Public administration and social organisations	2,447,060	0.53	2,517,500	0.73
Household services and other services	1,967,475	0.43	1,052,171	0.30
Scientific research, technology services and geological prospecting	1,714,035	0.37	527,852	0.15
Education	531,332	0.12	397,152	0.11
Health, social security and social welfare	528,407	0.11	425,225	0.12
Discounted bills	18,024,442	3.92	39,827,199	11.53
Total corporate loans and advances	371,224,472	80.79	282,311,748	81.73

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(a) Analysis of loans and advances to customers by industry (continued)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Personal loans and advances				
Personal business	73,203,499	15.93	60,304,266	17.46
Residential mortgage loans	8,812,054	1.92	2,204,489	0.64
Others	6,253,028	1.36	602,358	0.17
Total personal loans and advances	88,268,581	19.21	63,111,113	18.27
Gross amount of loans and advances before allowance for impairment	459,493,053	100.00	345,422,861	100.00

(b) Analysis of loans and advances to customers by security type (Gross amount)

	December 31,	
	2016	2015
Collateralized loans	180,846,164	149,906,362
Guaranteed loans	133,982,215	90,575,061
Pledged loans	72,495,022	40,865,811
Unsecured loans	54,145,210	24,248,428
Discounted bills	18,024,442	39,827,199
Total	459,493,053	345,422,861

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(c) Analysis of loans and advances to customers by geographical areas (Gross amount)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Eastern	243,706,939	53.04	200,043,980	57.91
Midwestern	93,867,159	20.43	54,167,679	15.68
Northern	80,273,764	17.47	65,892,661	19.08
Southern	41,645,191	9.06	25,318,541	7.33
Total	459,493,053	100.00	345,422,861	100.00

(d) Analysis of loans and advances to customers by overdue and impaired status

	December 31, 2016		December 31, 2015	
	Corporate loans and advances	Personal loans and advances	Corporate loans and advances	Personal loans and advances
Neither overdue nor impaired	365,323,385	86,910,829	277,065,957	61,858,044
Overdue but not impaired	685,414	471,404	1,521,516	744,435
Impaired	5,215,673	886,348	3,724,275	508,634
Gross	371,224,472	88,268,581	282,311,748	63,111,113
Less: Collective impairment allowances	(10,264,681)	(2,773,382)	(6,738,777)	(1,601,792)
Individual impairment allowances	(2,786,333)	–	(1,853,352)	–
Total allowance	(13,051,014)	(2,773,382)	(8,592,129)	(1,601,792)
Net	358,173,458	85,495,199	273,719,619	61,509,321

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(e) Loans and advances neither overdue nor impaired

The credit risk of the portfolio of loans and advances that was neither overdue nor impaired can be assessed by reference to the five-category system adopted.

December 31, 2016	Five categories of loan classification		
	Pass	Special- mention	Total
Corporate loans and advances	356,859,022	8,464,363	365,323,385
Personal loans and advances	86,561,195	349,634	86,910,829
Total	443,420,217	8,813,997	452,234,214

December 31, 2015	Five categories of loan classification		
	Pass	Special- mention	Total
Corporate loans and advances	272,786,370	4,279,587	277,065,957
Personal loans and advances	61,673,669	184,375	61,858,044
Total	334,460,039	4,463,962	338,924,001

(f) Loans and advances overdue but not impaired

	December 31, 2016				
	up to 30 days	30 – 60 days	60 – 90 days	over 90 days	Total
Corporate loans and advances	375,698	100,766	122,020	86,930	685,414
Personal loans and advances	90,271	69,787	39,833	271,513	471,404
Total	465,969	170,553	161,853	358,443	1,156,818

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(f) Loans and advances overdue but not impaired (continued)

	December 31, 2015				Total
	up to 30 days	30 – 60 days	60 – 90 days	over 90 days	
Corporate loans and advances	767,367	160,260	327,045	266,844	1,521,516
Personal loans and advances	122,485	116,857	100,067	405,026	744,435
Total	889,852	277,117	427,112	671,870	2,265,951

(g) Loans and advances that is impaired

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	December 31,	
	2016	2015
Corporate loans and advances	5,215,673	3,724,275
Personal loans and advances	886,348	508,634
Total	6,102,021	4,232,909
Fair value of collaterals		
Corporate loans and advances	4,847,943	2,396,817
Personal loans and advances	878,826	789,096
Total	5,726,769	3,185,913

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realization of the current collateral and the market conditions.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(h) Loans and advances renegotiated

Reorganizing activities include approval of debtor repayment plans, modification and deferral of payments. Following reorganizing, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Reorganizing policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue to be made. These policies are under continuous review. Reorganizing is most commonly applied to term loans, in particular mid-term and long-term loans. The renegotiated loan balances of the Bank are as follows:

	December 31,	
	2016	2015
Loans and advances renegotiated	286,640	77,490

(i) Overdue loans and advances by overdue days and security type:

	December 31, 2016				
	up to 90 days	90 days to 1 year	1 – 3 years	over 3 years	Total
Unsecured	18,125	52,825	2,098	–	73,048
Guaranteed	420,193	981,608	884,443	5,097	2,291,341
Collateralized	674,846	1,506,487	907,960	7,678	3,096,971
Pledged	13,156	19,128	21,648	–	53,932
Total	1,126,320	2,560,048	1,816,149	12,775	5,515,292

	December 31, 2015				
	up to 90 days	90 days to 1 year	1 – 3 years	over 3 years	Total
Unsecured	17,730	3,340	88,421	–	109,491
Guaranteed	1,165,748	1,093,870	411,372	–	2,670,990
Collateralized	1,343,494	1,518,289	547,450	14,374	3,423,607
Pledged	47,320	60,011	480	–	107,811
Total	2,574,292	2,675,510	1,047,723	14,374	6,311,899

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.7 Debt instruments

December 31, 2016

	Held for trading	Available-for-sale	Held-to-maturity	Debt instruments classified as receivables	Total
RMB					
A-1(i)	140,268	—	—	—	140,268
AAA	717,510	10,763,473	11,426,698	—	22,907,681
AA	1,069,172	387,555	1,070,149	—	2,526,876
A	—	220,419	—	—	220,419
Unrated (ii)	19,636,071	46,684,040	29,036,085	537,036,109	632,392,305
Subtotal	21,563,021	58,055,487	41,532,932	537,036,109	658,187,549
Foreign currencies					
AAA	334,445	—	—	—	334,445
A	145,740	208,841	—	—	354,581
BBB	363,370	1,042,054	—	—	1,405,424
BB	21,347	433,839	—	—	455,186
B	634,313	1,556,822	—	—	2,191,135
Unrated (ii)	69,583	144,898	—	—	214,481
Subtotal	1,568,798	3,386,454	—	—	4,955,252
Total	23,131,819	61,441,941	41,532,932	537,036,109	663,142,801

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.7 Debt instruments (continued)

December 31, 2015

	Held for trading	Available-for-sale	Held-to-maturity	Debt instruments classified as receivables	Total
RMB					
AAA	818,892	6,600,905	3,802,801	–	11,222,598
AA	568,380	468,640	700,000	–	1,737,020
A	–	225,137	–	–	225,137
Unrated (ii)	9,408,019	41,348,914	24,539,362	430,536,314	505,832,609
Subtotal	10,795,291	48,643,596	29,042,163	430,536,314	519,017,364
Foreign currencies					
A	–	448,807	–	–	448,807
Unrated (ii)	–	–	–	1,357,292	1,357,292
Subtotal	–	448,807	–	1,357,292	1,806,099
Total	10,795,291	49,092,403	29,042,163	431,893,606	520,823,463

- (i) Held for trading debt instruments in rating of 'A-1' referred to short-term financing bonds held by the Bank, of which the issuer generally has a long-term credit rating being 'AA' and above.
- (ii) The unrated debt instruments classified as held-for-trading, available-for-sale and held-to-maturity mainly consist of investment and trading securities issued by the PRC Ministry of Finance, central bank, policy banks and other financial institutions which are creditworthy issuers in the market, but are not rated by independent rating agencies. The unrated debt instruments classified as receivables mainly include trust plans or asset management plans that are mainly based on other financial institution credit and guaranteed by third-party guarantors, or secured by collateral, wealth management products sponsored by other banks and interbank forfaiting investment.

As of December 31, 2016, there were no overdue nor impaired debt instruments held by the Bank, and the balance of collectively assessed impairment provision of debt instruments classified as receivables were RMB3,467,730 thousand (December 31, 2015: RMB1,611,057 thousand).

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.8 Foreclosed assets

	December 31,	
	2016	2015
Real estate and land use rights	33,960	33,960

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Generally the Bank does not occupy foreclosed properties for its business use. Foreclosed assets are presented in other assets in the statement of financial position.

41.1.9 Concentration risk analysis for financial assets with credit risk exposure

As of December 31, 2016 and 2015, the majority of the Bank's credit risk exposures arising from both on-balance sheet and off-balance sheet items is from Mainland China.

41.2 Market risk

41.2.1 Overview

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

Under the principle of unified management, the Bank has basically formed a comprehensive market risk management framework, built a whole set of organising system including the board reporting, management monitoring, independent management of risk management department and independent monitoring and reporting of risk monitoring officer from risk management department. The risk management policies and procedures of the Bank are formulated based on the nature, size, complexity and risk characteristics of its business, and are consistent with bank's overall business development strategy, management capability and capital strength.

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Bank segregates all financial instruments, both on and off-balance sheet, into either the trading book or banking book, and manage risk of the two categories separately.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.2 Market risk (continued)

41.2.2 Market analysis measurement techniques

The Bank adopts appropriate and market-recognized methods to evaluate exposure of market risk for financial instrument on its trading book and banking book respectively based on reasonable assumptions and parameters.

The Bank uses duration analysis, scenario analysis, value at risk (VaR) analysis, and other risk measurement methods to evaluate related market risk of trading book. The market risk of banking book is evaluated mainly through sensitivity gap analysis and cash flow analysis.

The Bank regularly performs the subsequent review by comparing the results obtained from market risk measurement methods or models with the actual results, and then adjusts and improves market risk measurement methods or models. The Bank has also established a reporting system for the results of market risk measurement and monitoring, and the overall market risk information of the Bank is reported to the board of directors and the management on a regular basis.

41.2.3 Interest rate risk

The major market risk for banking book is interest rate risk. The Bank measures interest rate sensitivity gap on a regular basis, evaluates interest rate risk through gap analysis, and further assesses the impact of interest rate changes on net interest income and corporate net value in varied interest rate scenarios.

The Bank performs business in Mainland China in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest-earning loans and interest-bearing deposits in the same direction, but may not be in parallel.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.2 Market risk (continued)

41.2.3 Interest rate risk (continued)

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2016						
Assets						
Cash and balances with central bank	123,959,303	-	-	-	309,803	124,269,106
Due from banks and other financial institutions	83,663,629	14,778,500	-	-	-	98,442,129
Financial assets at fair value through profit or loss	661,758	5,758,689	8,948,050	7,763,322	-	23,131,819
Derivative financial assets	-	-	-	-	4,780,282	4,780,282
Loans and advances to customers	150,662,080	231,835,400	61,160,797	10,380	-	443,668,657
Financial investments						
- Available-for-sale	1,227,925	4,641,374	34,639,939	20,932,703	25,000	61,466,941
- Held-to-maturity	670,052	3,279,737	21,840,595	15,742,548	-	41,532,932
- Debt instruments classified as receivables	128,131,265	221,760,228	177,773,045	8,245,342	1,126,229	537,036,109
Other financial assets	175,510	69,188	-	-	4,966,008	5,210,706
Total assets	489,151,522	482,123,116	304,362,426	52,694,295	11,207,322	1,339,538,681
Liabilities						
Due to other banks and financial institutions	(207,897,330)	(185,211,491)	(1,000,000)	-	-	(394,108,821)
Financial liabilities at fair value through profit or loss	-	-	-	-	(13,875,609)	(13,875,609)
Derivative financial liabilities	-	-	-	-	(4,126,534)	(4,126,534)
Customer deposits	(429,777,965)	(138,340,938)	(167,482,723)	-	(642,072)	(736,243,698)
Other financial liabilities	(51,405)	(31,404)	-	-	(15,547,415)	(15,630,224)
Debt securities issued	(9,451,353)	(70,501,188)	(24,642,709)	(10,000,000)	-	(114,595,250)
Total liabilities	(647,178,053)	(394,085,021)	(193,125,432)	(10,000,000)	(34,191,630)	(1,278,580,136)
Total interest sensitivity gap	(158,026,531)	88,038,095	111,236,994	42,694,295	(22,984,308)	60,958,545

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.2 Market risk (continued)

41.2.3 Interest rate risk (continued)

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2015						
Assets						
Cash and balances with central bank	87,412,081	-	-	-	237,660	87,649,741
Due from banks and other financial institutions	56,927,660	19,679,787	-	-	-	76,607,447
Financial assets at fair value through profit or loss	-	986,657	6,666,015	3,142,619	-	10,795,291
Derivative financial assets	-	-	-	-	458,534	458,534
Loans and advances to customers	128,519,258	173,984,576	30,401,427	2,323,679	-	335,228,940
Financial investments						
- Available-for-sale	417,845	5,065,855	28,870,115	14,738,588	25,000	49,117,403
- Held-to-maturity	410,071	2,391,554	13,957,662	12,282,876	-	29,042,163
- Debt instruments classified as receivables	97,901,221	234,911,811	92,222,708	2,500,000	4,357,866	431,893,606
Other financial assets	10,437	-	24,701	-	4,182,558	4,217,696
Total assets	371,598,573	437,020,240	172,142,628	34,987,762	9,261,618	1,025,010,821
Liabilities						
Due to other banks and financial institutions	(244,208,133)	(109,092,574)	(1,000,000)	-	(356,650)	(354,657,357)
Financial liabilities at fair value through profit or loss	-	(500,020)	-	-	-	(500,020)
Derivative financial liabilities	-	-	-	-	(634,747)	(634,747)
Customer deposits	(271,254,382)	(122,699,356)	(120,597,647)	(1,000,000)	(474,911)	(516,026,296)
Other financial liabilities	(10,437)	-	-	-	(14,330,044)	(14,340,481)
Debt securities issued	(41,964,241)	(32,435,459)	(12,286,336)	(3,250,000)	-	(89,936,036)
Total liabilities	(557,437,193)	(264,727,409)	(133,883,983)	(4,250,000)	(15,796,352)	(976,094,937)
Total interest sensitivity gap	(185,838,620)	172,292,831	38,258,645	30,737,762	(6,534,734)	48,915,884

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.2 Market risk (continued)

41.2.3 Interest rate risk (continued)

The currency for the Bank's majority of interest-earning assets and interest-bearing liabilities is RMB. The potential impact on net profit at each financial reporting date stated below with 100 bps changes along the yield curve is as follows:

	December 31,	
	2016	2015
100 bps up along the yield curve	(810,689)	(761,508)
100 bps down along the yield curve	810,689	761,508

For the purpose of the sensitivity analysis, the Bank adopts the following assumptions in determining business conditions and financial inputs:

- Analysis is based on static gap at each financial reporting date, regardless of subsequent changes;
- The fluctuations in interest rates of different interest-earning assets and interest-bearing liabilities are the same;
- All assets and liabilities are re-priced in the middle of relevant periods;
- No consideration of impact on customers' behavior resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of impact on off-balance sheet business from interest rate changes;
- No consideration of actions taken by the Bank with regard to interest rate changes.

Therefore, the actual results on net profit due to changes in interest rates may differ from the analysis above.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.2 Market risk (continued)

41.2.4 Foreign exchange risk

The Bank's business is mainly operated in China and settled in RMB. However, The Bank's assets and liabilities as well as the transactions denominated in foreign currency are exposed to the foreign exchange risk as the foreign exchange position and cash flows are affected by the fluctuations in the prevailing foreign exchange rates.

The major principle for control over foreign exchange risk of the Bank is to match assets and liabilities in different currencies and to keep the risk within limits. Based on the guidelines provided by risk management committee, relevant laws and regulations as well as evaluation on the current market, the Bank sets its risk limits and minimizes the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. For the foreign exchange risk exposure generated during trading operations, the Bank established strict position limits, risk limits and stop-loss limits, and controlled strictly through the hierarchical authorization management of traders.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.2 Market risk (continued)

41.2.4 Foreign exchange risk (continued)

The tables show the Bank's total assets and liabilities at carrying amounts in RMB, categorized by the original currency.

	RMB	US Dollar (RMB equivalent)	HK Dollar (RMB equivalent)	Others (RMB equivalent)	Total
December 31, 2016					
Assets					
Cash and balances with central bank	119,896,810	4,362,105	7,013	3,178	124,269,106
Due from banks and other financial institutions	87,246,022	3,610,258	7,206,981	378,868	98,442,129
Financial assets at fair value through profit or loss	21,563,021	1,568,798	-	-	23,131,819
Derivative financial assets	4,780,282	-	-	-	4,780,282
Loans and advances to customers	414,528,389	28,919,329	-	220,939	443,668,657
Financial investments					
- Available-for-sale	58,081,738	3,385,203	-	-	61,466,941
- Held-to-maturity	41,532,932	-	-	-	41,532,932
- Debt instruments classified as receivables	537,036,109	-	-	-	537,036,109
Other financial assets	4,973,891	195,464	40,514	837	5,210,706
Total assets	1,289,639,194	42,041,157	7,254,508	603,822	1,339,538,681
Liabilities					
Due to other banks and financial institutions	(371,837,636)	(21,318,941)	-	(952,244)	(394,108,821)
Financial liabilities at fair value through profit or loss	(13,875,609)	-	-	-	(13,875,609)
Derivative financial liabilities	(4,126,534)	-	-	-	(4,126,534)
Customer deposits	(706,116,140)	(29,615,834)	(93,062)	(418,662)	(736,243,698)
Other financial liabilities	(15,379,205)	(250,241)	(19)	(759)	(15,630,224)
Debt securities issued	(114,595,250)	-	-	-	(114,595,250)
Total liabilities	(1,225,930,374)	(51,185,016)	(93,081)	(1,371,665)	(1,278,580,136)
Net position	63,708,820	(9,143,859)	7,161,427	(767,843)	60,958,545
Financial guarantees and credit related commitments	321,425,621	25,328,489	-	4,123,354	350,877,464

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.2 Market risk (continued)

41.2.4 Foreign exchange risk (continued)

	RMB	US Dollar (RMB equivalent)	HK Dollar (RMB equivalent)	Others (RMB equivalent)	Total
December 31, 2015					
Assets					
Cash and balances with central bank	87,059,010	585,275	2,176	3,280	87,649,741
Due from banks and other financial institutions	74,907,698	1,549,788	45,860	104,101	76,607,447
Financial assets at fair value through profit or loss	10,795,291	–	–	–	10,795,291
Derivative financial assets	458,534	–	–	–	458,534
Loans and advances to customers	324,198,431	10,394,983	–	635,526	335,228,940
Financial investments					
– Available-for-sale	48,668,569	448,834	–	–	49,117,403
– Held-to-maturity	29,042,163	–	–	–	29,042,163
– Debt instruments classified as receivables	430,526,322	651,056	–	716,228	431,893,606
Other financial assets	4,144,819	71,531	–	1,346	4,217,696
Total assets	1,009,800,837	13,701,467	48,036	1,460,481	1,025,010,821
Liabilities					
Due to other banks and financial institutions	(346,514,532)	(4,574,846)	–	(3,567,979)	(354,657,357)
Financial liabilities at fair value through profit or loss	(500,020)	–	–	–	(500,020)
Derivative financial liabilities	(634,747)	–	–	–	(634,747)
Customer deposits	(504,149,741)	(11,415,490)	(39,671)	(421,394)	(516,026,296)
Other financial liabilities	(14,220,157)	(99,551)	(13)	(20,760)	(14,340,481)
Debt securities issued	(89,936,036)	–	–	–	(89,936,036)
Total liabilities	(955,955,233)	(16,089,887)	(39,684)	(4,010,133)	(976,094,937)
Net position	53,845,604	(2,388,420)	8,352	(2,549,652)	48,915,884
Financial guarantees and credit related commitments	253,657,966	7,061,738	–	1,414,386	262,134,090

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.2 Market risk (continued)

41.2.4 Foreign exchange risk (continued)

The Bank's foreign exchange exposure is not material and mainly US dollars and HK dollars. The potential impact on net profit resulting from foreign currency translation gains/(losses) with 1% fluctuation of USD and HKD against RMB is as follows:

	December 31,	
	2016	2015
1% of appreciation of USD against RMB	708	612
1% of depreciation of USD against RMB	(708)	(612)

For the purpose of the sensitivity analysis, the Bank has considered both spot foreign exchange exposure and forward foreign exchange exposure, and adopts the following assumptions in determining business conditions and financial inputs:

- Analysis is based on static gap at each financial reporting date, regardless of subsequent changes;
- No consideration of impact on customers' behavior resulting from exchange rate changes;
- No consideration of impact on market price resulting from exchange rate changes;
- No consideration of actions taken by the Bank with regard to exchange rate changes.

Therefore, the actual results on net profit due to changes in exchange rates may differ from analysis above.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.3 Liquidity risk

41.3.1 Overview

Liquidity risk is the risk that funds will not be available to meet liabilities as they come due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The match between maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are all key factors when evaluating its' exposure to liquidity risk.

The Bank's assets and liabilities management department manages its liquidity risk through:

- Optimizing asset and liability structure;
- Making projections of future cash flows, and evaluating the appropriate current asset position;
- Maintaining reasonable level of liquidity reserve;
- Conducting stress testing on a regular basis.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.3 Liquidity risk (continued)

41.3.2 Analysis of the undiscounted contractual cash flows

The tables below present the contractual undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2016								
Non-derivative financial assets								
Cash and balances with central bank	-	106,400,672	17,924,951	-	-	-	-	124,325,623
Due from banks and other financial institutions	-	-	17,187,727	66,783,338	15,168,615	-	-	99,139,680
Financial assets at fair value through profit or loss	-	-	-	687,735	6,008,912	10,022,194	9,122,834	25,841,675
Loans and advances to customers	4,464,086	-	-	62,585,248	236,708,408	148,827,597	20,749,328	473,334,667
Financial investments								
- Available-for-sale	-	25,000	200,000	1,048,183	4,709,341	37,280,087	23,160,465	66,423,076
- Held-to-maturity	-	-	-	685,355	3,388,958	23,405,517	17,096,396	44,576,226
- Debt instruments classified as receivables	-	-	-	133,466,391	236,789,112	184,835,791	8,941,818	564,033,112
Other financial assets	10,000	75,682	-	166,191	69,698	-	-	321,571
Total non-derivative financial assets	4,474,086	106,501,354	35,312,678	265,422,441	502,843,044	404,371,186	79,070,841	1,397,995,630
Non-derivative financial liabilities								
Due to other banks and financial institution	-	-	(57,533,437)	(151,874,694)	(189,419,835)	(1,324,800)	-	(400,152,766)
Financial liabilities at fair value through profit or loss	-	(29,560)	-	(1,644,625)	(12,201,424)	-	-	(13,875,609)
Customer deposits	-	-	(301,295,418)	(81,339,648)	(187,935,342)	(171,931,226)	-	(742,501,634)
Other financial liabilities	-	(3,286,979)	-	(51,405)	(31,404)	-	-	(3,369,788)
Debt securities issued	-	-	-	(10,214,233)	(72,235,919)	(28,737,691)	(11,800,000)	(122,987,843)
Total non-derivative financial liabilities	-	(3,316,539)	(358,828,855)	(245,124,605)	(461,823,924)	(201,993,717)	(11,800,000)	(1,282,887,640)
Net liquidity	4,474,086	103,184,815	(323,516,177)	20,297,836	41,019,120	202,377,469	67,270,841	115,107,990

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.3 Liquidity risk (continued)

41.3.2 Analysis of the undiscounted contractual cash flows (continued)

	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2015								
Non-derivative financial assets								
Cash and balances with central bank	-	75,592,986	12,096,764	-	-	-	-	87,689,750
Due from banks and other financial institutions	-	-	4,852,182	52,659,532	20,575,765	-	-	78,087,479
Financial assets at fair value through profit or loss	-	-	-	-	401,177	7,728,477	3,989,080	12,118,734
Loans and advances to customers	4,359,537	-	-	58,567,482	190,065,399	91,042,149	9,373,733	353,408,300
Financial investments								
– Available-for-sale	-	25,000	200,000	183,559	4,153,821	31,886,064	17,967,718	54,416,162
– Held-to-maturity	-	-	-	391,468	2,510,625	15,573,789	16,146,706	34,622,588
– Debt instruments classified as receivables	-	-	-	100,102,289	244,224,980	104,100,176	4,085,935	452,513,380
Other financial assets	1,000	-	82,161	9,437	-	26,569	-	119,167
Total non-derivative financial assets	4,360,537	75,617,986	17,231,107	211,913,767	461,931,767	250,357,224	51,563,172	1,072,975,560
Non-derivative financial liabilities								
Due to other banks and financial institution	-	-	(19,487,343)	(174,295,399)	(167,411,997)	(1,001,778)	-	(362,196,517)
Financial liabilities at fair value through profit or loss	-	-	-	-	(507,911)	-	-	(507,911)
Customer deposits	-	-	(215,602,211)	(57,894,786)	(124,426,560)	(122,249,998)	(1,000,000)	(521,173,555)
Other financial liabilities	-	-	(3,905,063)	(10,437)	-	-	-	(3,915,500)
Debt securities issued	-	-	-	(42,666,500)	(33,260,250)	(14,840,500)	(3,461,250)	(94,228,500)
Total non-derivative financial liabilities	-	-	(238,994,617)	(274,867,122)	(325,606,718)	(138,092,276)	(4,461,250)	(982,021,983)
Net liquidity	4,360,537	75,617,986	(221,763,510)	(62,953,355)	136,325,049	112,264,948	47,101,922	90,953,577

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.3 Liquidity risk (continued)

41.3.3 Derivative financial instruments cash flow

The Bank's derivative financial instruments are either settled on a net basis or a gross basis.

(a) *Derivatives settled on a net basis*

The Bank's derivatives that will be settled on a net basis include interest rate swaps.

The table below analyzes the Bank's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet as of December 31, 2016, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

December 31, 2016	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Interest rate swaps					
– outflow	(8,523)	(18,911)	(173,324)	(1,144,127)	(1,344,885)
– inflow	7,940	19,236	144,564	1,041,066	1,212,806
Total	(583)	325	(28,760)	(103,061)	(132,079)

December 31, 2015	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Interest rate swaps					
– outflow	–	(2,986)	(27,311)	(68,561)	(98,858)
– inflow	29	2,176	23,636	74,928	100,769
Total	29	(810)	(3,675)	6,367	1,911

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.3 Liquidity risk (continued)

41.3.3 Derivative financial instruments cash flow (continued)

(b) *Derivatives settled on a gross basis*

The Bank's derivatives that will be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and currency swaps.

The table below analyzes the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet as of December 31, 2016, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

December 31, 2016	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Foreign exchange derivatives					
– outflow	(36,929,775)	(46,723,582)	(112,106,052)	(5,441,423)	(201,200,832)
– inflow	36,929,543	46,544,660	113,044,253	5,434,653	201,953,109
Total	(232)	(178,922)	938,201	(6,770)	752,277

December 31, 2015	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Foreign exchange derivatives					
– outflow	(12,926,475)	(9,210,202)	(30,742,952)	(1,828,681)	(54,708,310)
– inflow	12,901,066	9,095,487	30,701,727	1,831,906	54,530,186
Total	(25,409)	(114,715)	(41,225)	3,225	(178,124)

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.3 Liquidity risk (continued)

41.3.4 Maturity analysis

The tables below summarize the maturity analysis of assets and liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period.

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2016								
Assets								
Cash and balances with central bank	-	106,348,030	17,921,076	-	-	-	-	124,269,106
Precious metal	-	3,952,824	-	-	-	-	-	3,952,824
Due from banks and other financial institutions	-	-	17,187,727	66,475,902	14,778,500	-	-	98,442,129
Financial assets at fair value through profit or loss	-	-	-	661,758	5,758,689	8,948,050	7,763,322	23,131,819
Derivative financial assets	-	-	-	1,048,613	2,581,854	1,149,815	-	4,780,282
Loans and advances to customers	4,422,340	-	-	57,903,637	226,946,340	139,058,027	15,338,313	443,668,657
Financial investments								
- Available-for-sale	-	25,000	200,000	1,027,925	4,641,374	34,639,939	20,932,703	61,466,941
- Held-to-maturity	-	-	-	670,052	3,279,738	21,840,594	15,742,548	41,532,932
- Debt instruments classified as receivables	-	-	-	129,322,643	223,353,472	175,826,014	8,533,980	537,036,109
Other assets, including deferred income tax assets	11,646	8,387,657	34,385	2,623,331	3,220,370	1,975,525	320,806	16,573,720
Total assets	4,433,986	118,713,511	35,343,188	259,733,861	484,560,337	383,437,964	68,631,672	1,354,854,519
Liabilities								
Due to other banks and financial institution	-	-	(57,533,437)	(150,363,892)	(185,211,492)	(1,000,000)	-	(394,108,821)
Financial liabilities at fair value through profit or loss	-	(29,560)	-	(1,644,625)	(12,201,424)	-	-	(13,875,609)
Derivative financial liabilities	-	-	-	(1,213,742)	(1,633,921)	(1,278,871)	-	(4,126,534)
Customer deposits	-	-	(294,980,363)	(83,999,269)	(189,327,337)	(167,731,645)	(205,084)	(736,243,698)
Other liabilities, including deferred income tax liability	-	(12,340)	(1,654,747)	(16,557,460)	(5,896,207)	(227,733)	(80,742)	(24,429,229)
Debt securities issued	-	-	-	(9,451,353)	(70,501,188)	(24,642,709)	(10,000,000)	(114,595,250)
Total liabilities	-	(41,900)	(354,168,547)	(263,230,341)	(464,771,569)	(194,880,958)	(10,285,826)	(1,287,379,141)
Net liquidity gap	4,433,986	118,671,611	(318,825,359)	(3,496,480)	19,788,768	188,557,006	58,345,846	67,475,378

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.3 Liquidity risk (continued)

41.3.4 Maturity analysis (continued)

	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2015								
Assets								
Cash and balances with central bank	-	75,555,586	12,094,155	-	-	-	-	87,649,741
Precious metal	-	1,848	-	-	-	-	-	1,848
Due from banks and other financial institutions	-	-	4,852,182	52,075,478	19,679,787	-	-	76,607,447
Financial assets at fair value through profit or loss	-	-	-	-	986,657	6,666,015	3,142,619	10,795,291
Derivative financial assets	-	-	-	75,352	286,967	96,215	-	458,534
Loans and advances to customers	4,288,746	-	-	54,775,979	182,907,103	85,110,470	8,146,642	335,228,940
Financial investments								
- Available-for-sale	-	25,000	200,000	217,845	5,065,855	28,870,115	14,738,588	49,117,403
- Held-to-maturity	-	-	-	410,070	2,391,555	13,957,662	12,282,876	29,042,163
- Debt instruments classified as receivables	-	-	-	99,520,427	238,501,937	91,415,242	2,456,000	431,893,606
Other assets, including deferred income tax assets	10,085	5,455,067	82,097	974,073	2,953,177	1,203,854	177,060	10,855,413
Total assets	4,298,831	81,037,501	17,228,434	208,049,224	452,773,038	227,319,573	40,943,785	1,031,650,386
Liabilities								
Due to other banks and financial institution	-	-	(18,364,775)	(172,517,285)	(162,775,297)	(1,000,000)	-	(354,657,357)
Financial liabilities at fair value through profit or loss	-	-	-	-	(500,020)	-	-	(500,020)
Derivative financial liabilities	-	-	-	(216,257)	(331,867)	(86,623)	-	(634,747)
Customer deposits	-	-	(214,929,100)	(56,800,192)	(122,899,356)	(120,397,648)	(1,000,000)	(516,026,296)
Other liabilities, including deferred income tax liability	-	(4,036)	(523,964)	(14,667,637)	(4,961,791)	(70,371)	(11,067)	(20,238,866)
Debt securities issued	-	-	-	(41,964,241)	(32,435,459)	(12,286,336)	(3,250,000)	(89,936,036)
Total liabilities	-	(4,036)	(233,817,839)	(286,165,612)	(323,903,790)	(133,840,978)	(4,261,067)	(981,993,322)
Net liquidity gap	4,298,831	81,033,465	(216,589,405)	(78,116,388)	128,869,248	93,478,595	36,682,718	49,657,064

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.3 Liquidity risk (continued)

41.3.5 Off-balance sheet items

December 31, 2016	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	164,360,672	–	–	164,360,672
Letters of credit	128,575,111	101,475	–	128,676,586
Letters of guarantee issued	37,054,403	6,546,974	–	43,601,377
Loan commitments	3,061,032	–	–	3,061,032
Unused credit limit	11,177,797	–	–	11,177,797
Total	344,229,015	6,648,449	–	350,877,464

December 31, 2015	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	122,164,834	–	–	122,164,834
Letters of credit	88,735,215	8,821	–	88,744,036
Letters of guarantee issued	39,335,706	3,694,832	–	43,030,538
Loan commitments	5,388,500	–	–	5,388,500
Unused credit limit	2,806,182	–	–	2,806,182
Total	258,430,437	3,703,653	–	262,134,090

41.4 Fair values of financial assets and liabilities

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivatives and debt instruments traded in interbank market. The input parameters like bond yield curve or counterparty credit risk are based on data from China Bond and Bloomberg.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.4 Fair values of financial assets and liabilities (continued)

(a) Fair value hierarchy (continued)

- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: balances with the central bank, due from banks and other financial institutions, loans and advances to customers, financial investments-held-to-maturity, financial investments-debt instruments classified as receivables, due to banks and other financial institutions, deposits from customers and debt securities issued.

The table below summarizes the carrying amounts and fair values of those financial assets and financial liabilities that are not measured at fair value, including financial investments-held-to-maturity, financial investments-debt instruments classified as receivables and debt securities issued. For the other financial instruments not measured at fair value in the statement of financial position, their fair value approximates carrying amount.

	Carrying value	December 31, 2016			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity	41,532,932	–	41,537,769	–	41,537,769
Financial investments					
– Debt instruments classified as receivables	537,036,109	–	442,442,602	96,174,457	538,617,059
Total	578,569,041	–	483,980,371	96,174,457	580,154,828
Financial liabilities					
Debt securities issued	(114,595,250)	–	(115,910,000)	–	(115,910,000)

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.4 Fair values of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value (continued)

	Carrying value	December 31, 2015			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity	29,042,163	–	29,955,988	–	29,955,988
Financial investments					
– Debt instruments classified as receivables	431,893,606	–	382,418,387	50,917,921	433,336,308
Total	460,935,769	–	412,374,375	50,917,921	463,292,296
Financial liabilities					
Debt securities issued	(89,936,036)	–	(89,538,488)	–	(89,538,488)

(i) *Held-to-maturity investments and debt instruments classified as receivables*

Held-to-maturity investments and debt instruments classified as receivables whose fair value is based on quoted market prices are included in level 1. If the quoted market prices are determined by reference to instruments with similar credit risk, maturity and yield characteristics where applicable, the fair value measurement will be included in level 2. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received are based on unobservable yield curves, the fair value measurement will be included in level 3.

(ii) *Debt securities issued*

If the fair value of debt securities issued is based on quoted market prices, it will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to calculate fair value are observable, it is included in level 2.

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.4 Fair values of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	23,131,819	–	23,131,819
Derivative financial assets	–	4,780,282	–	4,780,282
Financial investments – Available-for-sale				
– Debt securities	–	61,283,045	–	61,283,045
– Interbank certificates of deposit	–	158,896	–	158,896
– Equity investment	–	–	25,000	25,000
Total	–	89,354,042	25,000	89,379,042
Financial liabilities at fair value through profit or loss	–	(13,875,609)	–	(13,875,609)
Derivative financial liabilities	–	(4,126,534)	–	(4,126,534)
Total	–	(18,002,143)	–	(18,002,143)
December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	10,795,291	–	10,795,291
Derivative financial assets	–	458,534	–	458,534
Financial investments – Available-for-sale				
– Debt securities	–	48,072,368	–	48,072,368
– Interbank certificates of deposit	–	1,020,035	–	1,020,035
– Equity investment	–	–	25,000	25,000
Total	–	60,346,228	25,000	60,371,228
Financial liabilities at fair value through profit or loss	–	(500,020)	–	(500,020)
Derivative financial liabilities	–	(634,747)	–	(634,747)
Total	–	(1,134,767)	–	(1,134,767)

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.4 Fair values of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

The Bank uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Bank include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.

41.5 Capital management

The core of the Bank's Capital Management is capital adequacy ratio and capital rate of return. The objective of capital management is to meet external regulatory requirements and shareholder's return, protect the interests of creditors to the best effort, stimulate expansion of assets and improve risk management.

The Bank prudently determines the objectives of capital adequacy ratio which meets the regulatory requirements and coincides with its own risk exposure. By taking a variety of actions such as limit management, the Bank ensures the realization of the management objectives. In addition, the Bank proactively adjusts its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

The Bank monitors the capital adequacy rate regularly based on regulations issued by the CBRC. The Bank reports the required capital information to the CBRC on a quarterly basis.

Core tier-one capital includes share capital, capital reserve, statutory surplus reserve, statutory general reserve and retained earnings. Tier-two capital includes tier-two capital instruments and premium as well as excessive allowance for loan losses. The primary regulatory deduction item in the calculation of the capital adequacy ratio is other intangible assets (excluding land use rights).

Notes to Financial Statements

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

41 FINANCIAL RISK MANAGEMENT (continued)

41.5 Capital management (continued)

Effective from January 1, 2013, the Bank started to implement the CBRC's regulation of 'Administrative Measures for the Capital of Commercial Banks (Trial Implementation)' which was issued on June 7, 2012. The capital adequacy ratio as of December 31, 2016 under the 'Trial Implementation' is as follows:

	December 31,	
	2016	2015
Total capital	85,912,841	59,475,980
Including: Core tier-one capital	67,706,445	50,409,543
Tier-two capital	18,206,396	9,066,437
Deduction: other intangible assets	(268,702)	(160,826)
Total capital, net of deductions	85,644,139	59,315,154
Total core tier-one capital, net of deductions	67,437,743	50,248,717
Total tier-one capital, net of deductions	67,437,743	50,248,717
Total risk-weighted assets	726,578,153	537,252,918
Core tier-one capital adequacy ratio	9.28%	9.35%
Tier-one capital adequacy ratio	9.28%	9.35%
Capital adequacy ratio	11.79%	11.04%

41.6 Entrusted loans

The Bank grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements.

	December 31,	
	2016	2015
Entrusted loans	74,557,069	48,680,706

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