



2016 Annual Report

HUA XIA BANK CO., LIMITED





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Chairman of the Board: Li Minji

MESSAGE FROM CHAIRMAN

Hua Xia Bank explored vigorously and worked hard in 2016, fulfilling the objectives set forth in the four-year development plan for 2013 through 2016.

Structural adjustments made progress. Specifically, our proportion of general deposits, return on assets and return on average equity all elevated to the average level of peer banks; our emerging business lines like investment banking and asset management also grew rapidly, contributing increasingly higher to profit growth.

The overall strength improved steadily. Our rankings among global peer banks by total assets and tier 1 capital climbed from the 97th and 111th to the 72nd and 79th, respectively; our outlet number grew from 475 to 886, which were distributed in 96 large and medium-sized cities across 35 provinces, municipalities directly under the central government and autonomous administrative regions.

Financial services went deeper continuously. With the fairly rapid growth of corporate, personal and small & micro customers, we managed to win many active customers and gather preliminary experience necessary for distinctive operation of small & micro enterprise business. Besides, we also launched an array of featured products including Annually Reviewed Loan, Hua Xia ETC cards, and Beijing-Tianjin-Hebei coordination cards, which made us influential in the sector of serving the coordinated development of the region.

The drive of building the “second bank” proceeded steadily. We worked hard to develop Internet finance, continued to optimize the functions of online banking and mobile banking, and vigorously sought for cross-over cooperation. As a result, our Internet-based customer on-boarding ability and service capacity were enhanced further.

We improved operations management and regulated operation, never overstepping the bottom line of risk, and also secured great strides in team building and creation of a harmonious corporate culture. At the same time, our vigorous commitment to social responsibilities helped us win more recognition both internally and externally.

In 2017, we will act on the economic and financial policies set forth by the CPC Central Committee and the Chinese Government, never overstepping the bottom line of risk control. At the same time, to make a difference, we will strive to seize opportunities brought along in such fields as transformation and development, structural adjustment, and reform and innovation.

We will attach equal importance to the Party building and the market-oriented reform, in a bid to lift our work in various fields to a new high resolutely. By including the general requirements for Party building into the corporate governance, we will ensure the absolute leadership of the Party. Pushing forward the market-oriented reform at the same time, we try to work with and remain tough on the both sides, so that they will interact with each other and generate a synergy, thus breaking a new ground.

We will serve the national development strategies and fit ourselves into the mainstream of local economic growth. All our branches and institutions are expected to serve China’s three major development strategies in earnest. In the meantime, we should work more proactively to integrate in the mainstream of local government projects and economic development. Proceeding from local conditions, we are in a good position to handle the relationship between “being large and strong” and “being stable and excellent” properly. We hope our bank can maintain sound development while serving the local economic growth with high-quality financial services.

We will highlight our features and capitalize on our business advantages. Serving small and medium-sized enterprises constitutes one of our featured businesses. We will work hard to turn it part of our core competitiveness. In the meantime, with value-driven thinking, we will adjust the structure of products, regions and customers for efficient allocation, in a bid to ensure our asset scale can grow efficiently.

We will strengthen lean management and render services in a professional manner. By such means as balance sheet management and management accounting, we will be able to bring new ideas about comprehensive value management so that our products, industry operations and personnel management all can go in a professional fashion. As a result, we will sharpen the comparative advantages in furnishing professional financial services.

We will strengthen control over non-performing assets and enhance risk mitigating capability. To substantially reduce non-performing assets through multiple channels and in a well-planned way, we will recruit a team of professional employees who demonstrate adequate executive force and competence to dispose all sorts of assets arising from special opportunities in the market.

We will develop a new plan and explore how to devise a good strategy on comprehensive operation and FinTech. The new plan should fully embody our resources and advantage, be aligned with our development objectives and pathways to them, and outline approaches to comprehensive operation and FinTech in particular.

In closing, I would like to extend my gratitude again to all shareholders and people from all walks of life for your substantial support!

Chairman of the Board

李 凡 吉



President: Zhang Jianhua

MESSAGE FROM PRESIDENT

In 2016, China started to implement its 13th Five-year Plan and Hua Xia Bank put an end to its four-year plan. Despite numerous difficulties and challenges, we resolutely implemented all decisions and deployments made by the CPC Central Committee, the Beijing Municipal Government and the regulatory authorities, sought for development and transformation with reform and innovation, thoroughly acted on the strategy of “becoming a SME financial service provider”, continued to build the “Hua Xia Service” brand, and transformed business at an accelerated pace toward regulated operation. Thanks to these efforts, we secured sound, steady growth.

In 2016, our total assets registered RMB2,356.235 billion, up 16.61% over previous year; our total profit reported RMB26.243 billion, representing an increase of 4.12%; our non-performing loan ratio stood at 1.67%, no higher than the average of the industry; and our capital adequacy ratio met the regulatory requirements. In one word, our performance beat all indicators set forth in the four-year plan. Over the same period, we were ranked the 72nd and 79th among global peers by total assets and tier 1 capital, respectively.

The structure was continuously improved. To be specific, the low-cost deposits accounted for a higher proportion and the interest rate for deposits outperformed the average of banking industry. The fee-based business income saw its proportion on the rise continuously. The proportion of general deposits, return on assets, and return on equity all elevated to the average level of peer banks. In the meantime, emerging businesses like investment banking and asset management also made more contribution to the profit growth. The small & micro enterprise loan business line managed to fulfill the regulatory indicators of “three no lower than” and the inclusive finance made substantial progress.

Innovation in products continued to strengthen. Major breakthroughs were made in such business lines as bond underwriting, securitization of credit assets, and supply chain financing; an array of product and service brands including credit card, elderly financing, “going global” financial service, Elite Loan, and Ji Jin Bao kept gaining popularity; a host of innovative business segments like Annually Reviewed Loan, online loan, house property as pledge for loan and e-commerce loan grew rapidly; and the “Cash Management Toolkit” serial products and the “Tou Rong Gu Xin” integrated financial service solutions won them a good many customers.

Service channel construction picked up speed. We had 886 outlets that were distributed in 96 large and medium-sized cities across 35 provinces, municipalities directly under the central government and autonomous administrative regions. All the 38 branches were built with a credit card institution. Active efforts were made to develop Internet finance by launching the upgraded “Hua Xia Dragon Network Plus” brand and Mobile Banking 4.0. With platform construction and cross-over cooperation bearing fruit, the online payment generated a trade

volume of RMB274.3 billion. The first smart robot for issuing bank cards hit the market, and the intelligent community and the financial service ecosphere targeting at car owners were rolled out under a pilot program. At the same time, we established partnerships with more than 140 domestic financial institutions and 1,572 correspondent banks to carry out business together.

Our efforts to serve the real economy came in better quality and higher efficiency. We provided a credit line of RMB44 billion to support the projects aimed at promoting the coordinated development of the Beijing-Tianjin-Hebei region throughout the year. We issued more than 1 million of the Beijing-Tianjin-Hebei coordination cards, the first of its kind across the industry. We continued to rank first in Beijing and Tianjin, when it came to the number of ETC cardholders. The Innovative Financing for Air Pollution Control in Jing-Jin-Ji Program for which we engaged in partnership with the World Bank commenced smoothly, and the “Blue Water & Sky” industrial development fund took on a market scale of nearly RMB2.3 billion. As a response to Beijing’s positioning as “four centers”, we invested more than RMB70 billion accumulatively in support of its infrastructure construction. Meanwhile, Zhongguancun Management Department of Beijing Branch effectively boosted the development of scientific and technological innovation and cultural industry.

Better performance was delivered in the fulfillment of social responsibilities. A total of 28 outlets won the title of “Best 1,000 Model Units for Civilized and Standardized Services in China” from China Banking Association and the Head Office was conferred with the “Award of Outstanding Contribution to Civilized and Standardized Service”. We continued to organize the “Hua Xia Star” training camp for outstanding small business owners, and donated money to build the third “Chuxin” library. Additionally, we received the “Award of Most Socially Responsible Financial Institution” from China Banking Association.

The year 2017 ushers in our 25th anniversary. Under the guidance of the new development plan, we will seek for progress while maintaining stability, stick to overall planning as a whole, and make breakthroughs in key fields. In practice, we will focus on serving the real economy with better quality and higher efficiency, enhancing our risk management capacity, and gathering pace in reform, innovation and transformation, in a bid to embrace the new period of growth with impressive performance!

President



IMPORTANT NOTICE

i. The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management members of Hua Xia Bank Co., Limited (the “Company”) undertake that the information in this report is authentic, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liabilities thereto.

ii. The *Annual Report 2016 of Hua Xia Bank Co., Limited* and its Summary were reviewed and approved at the 30th Meeting of the Seventh Board of Directors of the Company on 27 April 2017. 14 of the 16 Directors that should attend the meeting were present actually. Vice Chairman Li Ruge and Independent Director Yu Changchun were absent due to official affairs, and they entrusted Director Ding Shilong and Independent Director Wang Huacheng to exercise the right to vote respectively. Therefore, there were 16 valid votes. Five Supervisors attended the meeting as non-voting delegates.

iii. Profit distribution plan for the reporting period and plan on strengthening capital base with capital reserve that were reviewed by the Board of Directors:

With 10,685,572,211 shares outstanding of the Company at the end of 2016 as the base number, cash dividends will be distributed to all of the shareholders at RMB1.81 (before tax) per 10 shares. With 10,685,572,211 shares outstanding as the base, the Company used the capital reserve to strengthen the capital base at two shares transferred per ten shares.

For details, please refer to “Section V Significant Events”.

iv. The 2016 financial statements of the Company have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with Chinese auditing standards, with standard unqualified auditor’s report being issued.

v. Li Minji, Chairman of the Board of Directors of the Company, Zhang Jianhua, President of the Company, Guan Wenjie, Principal of Financial Affairs of the Company, and Fu Shengfeng, Person-in-charge of the Accounting Department of the Company, hereby warrant that the financial statements contained in the Annual Report are authentic, accurate and complete.

vi. Expressions related to the future business plan herein may constitute forward-looking statements, but they are not the Company’s actual commitment to investors. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision, but should be fully aware of the risks and properly understand the differences between plan, forecast and commitment.

vii. Important risk notice: The Company has described the risks that may adversely affect the fulfillment of the Company’s future development strategies and business objectives. Please refer to risk-related part in Section IV “Discussion and Analysis of Operations”.

SECTION I DEFINITIONS

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

The Group	Hua Xia Bank Co., Limited and its subsidiaries
The Company, the Bank, Hua Xia Bank	Hua Xia Bank Co., Limited
CBRC	China Banking Regulatory Commission
CSRC	China Securities Regulatory Commission
MOF	Ministry of Finance of the People's Republic of China
Yuan	RMB

SECTION II COMPANY PROFILE AND MAJOR FINANCIAL INDICATORS

- I. Legal name in Chinese: 华夏银行股份有限公司
Chinese abbreviation: 华夏银行
Legal name in English: HUA XIA BANK CO., Limited
- II. Legal Representative: Li Minji
- III. Secretary to the Board of Directors: Zhao Junxue
Securities affairs representative: Zhang Taiqi
Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Tel: 010-85238570, 85239938
Fax: 010-85239605
Email: zhdb@hxb.com.cn
- IV. Registered address: 22 Jianguomennei Street, Dongcheng District, Beijing
Business address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Website: <http://www.hxb.com.cn>, <http://www.95577.com.cn>
Email: zhdb@hxb.com.cn
- V. Newspaper designated for disclosure of information: *China Securities Journal*, *Shanghai Securities News* and *Securities Times*
Website designated by CSRC for publication of the annual report: <http://www.sse.com.cn>
Location where copies of this annual report are kept: Office of the Board of Directors of the Company
- VI. Place where share is listed: Shanghai Stock Exchange
Stock name of ordinary A-share: 华夏银行
Stock code of ordinary A-share: 600015
Stock name of preference share: 华夏优1
Stock code of preference share: 360020
- VII. Other relevant information:
Name of depository of shares of the Company: Shanghai Branch of China Securities Depository and Clearing Co., Ltd.
Name of accounting firm the Company engaged: Deloitte Touche Tohmatsu Certified Public Accountants LLP
Business address: 30/F Bund Center, 222 Yan An Road East, Shanghai, China
Signed CPAs: Fan Lihong & Li Jie
Sponsor institution for continuous supervision: CSC Financial Co., Ltd.
Office address: 9/F, Tower B, Metro World Center, No. 2 Chaonei Avenue, Dongcheng District, Beijing
Signed sponsor representatives: Lv Xiaofeng & Sui Yuyao
Period of continuous supervision: 20 April 2016 through 31 December 2016

VIII. MAJOR PROFIT INDICATORS OF THE YEAR

(Unit: RMB1 million)

Item	2016
Gross profit	26,243
Net profit attributable to equity holders of the listed company	19,677
Net profit attributable to equity holders of the listed company after deduction of extraordinary profit and loss	19,593
Operating profit	26,119
Return on investment	717
Net non-operating income and expenditure	124
Net cash flows from operating activities	139,912
Net change of cash and cash equivalents:	-71,563

Extraordinary Profit and Loss Items and Amounts

(Unit: RMB1 million)

Extraordinary profit and loss item	2016	2015	2014
(Profit)/loss from the disposal of fixed assets	-10	32	-8
Other net operating income and expenses	134	239	120
Total extraordinary profit and loss	124	271	112
Less: Income tax influence of extraordinary profit and loss	35	76	38
Extraordinary profit and loss, net	89	195	74
Less: Influence of extraordinary profit and loss attributable to minority shareholders of the Company, net (after-tax)	5	4	5
Extraordinary profit and loss attributable to ordinary shareholders of the Company	84	191	69

Note: The extraordinary profit and loss are identified and calculated in accordance with the *Explanatory Notice on Information Disclosure by Companies that Offer Securities to the Public No.1 – Extraordinary Profit and Loss (2008)*.

IX. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS IN THE PAST THREE YEARS

i. Main accounting data

(Unit: RMB1 million)

Main accounting data	2016	2015	Increase/ decrease compared with previous year (%)	2014
Operating income	64,025	58,844	8.80	54,885
Operating profit	26,119	24,934	4.75	23,891
Gross profit	26,243	25,205	4.12	24,003
Net profit attributable to equity holders of the listed company	19,677	18,883	4.20	17,981
Net profit attributable to equity holders of the listed company after deduction of extraordinary profit and loss	19,593	18,692	4.82	17,912
Net cash flows from operating activities	139,912	48,380	189.19	17,321
	End of 2016	End of 2015	Increase/ decrease compared with the end of previous year (%)	End of 2014
Total assets	2,356,235	2,020,604	16.61	1,851,628
Total Liabilities	2,203,262	1,902,216	15.83	1,749,529
Owner's equity attributable to equity holders of the listed company	152,184	117,678	29.32	101,458
Total share capital	10,686	10,686	-	8,905

ii. Major financial indicators

Major financial indicator	2016	2015	Increase/decrease compared with previous year (%)	2014
Basic earnings per share (in RMB)	1.84	1.77	3.95	1.68
Diluted earnings per share (in RMB)	1.84	1.77	3.95	1.68
Basic earnings per share after deduction of extraordinary profit and loss (in RMB)	1.83	1.75	4.57	1.68
Weighted average return on equity (%)	15.75	17.18	Down 1.43 percentage points	19.31
Weighted average return on net assets after deduction of extraordinary profit and loss (%)	15.68	17.01	Down 1.33 percentage points	19.24
Net cash flow per share from operating activities (in RMB)	13.09	4.53	188.96	1.62
	End of 2016	End of 2015	Increase/decrease compared with the end of previous year (%)	End of 2014
Net assets per share attributable to ordinary share holders of the listed company (in RMB)	12.37	11.01	12.35	9.49
Liability/asset ratio (%)	93.51	94.14	Down 0.63 percentage points	94.49

Supplementary financial ratios

Item	2016	2015	2014
Net interest spread (%)	2.29	2.40	2.52
Net interest margin (%)	2.42	2.56	2.69

Notes:

1. Relevant indicators are calculated according to the *Explanatory Notice on Information Disclosure by Companies that Offer Securities to the Public No.1 – Extraordinary Profit and Loss (2008)*, the *Standards Concerning the Contents and Formats of Information Disclosure by Companies that Offer Securities to the Public No. 2 – Contents and Formats of Annual Reports (Revision 2016)*, and the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)*.
2. Liability/asset ratio is calculated by dividing total liabilities by total assets.
3. Net interest spread is the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.
4. Net interest margin is calculated by dividing net interest income by the average balance of interest-generating assets.

X. MAJOR FINANCIAL INDICATORS OF 2016 BY QUARTER

(Unit: RMB1 million)

Item	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Operating income	15,119	16,086	16,390	16,430
Net profit attributable to equity holders of the listed company	4,431	5,395	4,791	5,060
Net profit attributable to equity holders of the listed company after deduction of extraordinary profit and loss	4,423	5,373	4,760	5,037
Net cash flows from operating activities	-102,004	175,909	-944	66,951

XI. SCHEDULE TO THE INCOME STATEMENT

Profit of the reporting period	Weighted average return on equity (%)	Earnings per share (in RMB)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	15.75	1.84	1.84
Net profit attributable to ordinary shareholders of the Company after deducting extraordinary profit and loss	15.68	1.83	1.83

Note: Calculated according to the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)*.

XII. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

(Unit: RMB1 million)

Item	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained profit	Minority shareholders' equity	Total shareholders' equity
Balance at the beginning of the period	10,686	-	28,762	1,292	7,913	21,451	47,574	710	118,388
Increase during the period	-	19,978	-	-	1,858	3,154	19,677	79	44,746
Decrease during the period	-	-	-	1,270	-	-	8,891	-	10,161
Balance at the end of the period	10,686	19,978	28,762	22	9,771	24,605	58,360	789	152,973

Major reasons for changes in shareholders' equity:

1. "Other equity instruments" increased because of the preference share offering during the reporting period.
2. According to the annual profit distribution plan, the Company set aside surplus reserve and general risk reserve and distributed cash dividends to all of the shareholders, so "surplus reserve" and "general risk reserve" increased but "retained profit" decreased.
3. "Other comprehensive income" changed due to the effect (after tax) of changes in fair value of available-for-sale financial assets on owner's equity.
4. The increase of "retained profit" is due to the realization of net profit during the reporting period.
5. The increase of "minority shareholders' equity" is due to net profit earned by the Group's non-wholly-controlled subsidiary during the reporting period.

XIII. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(Unit: RMB1 million)

Item	Balance at the beginning of the period	Balance at the end of the period	Change during the period	Effect on profit of the period
Financial assets measured at fair value through profit or loss	11,872	4,939	-6,933	-182
Available-for-sale financial assets	73,118	92,170	19,052	-
Derivative financial instruments	22	-290	-312	-312
Total	85,012	96,819	11,807	-494

SECTION III BUSINESS OVERVIEW

I. MAIN BUSINESSES, BUSINESS MODEL AND INDUSTRIES OF THE COMPANY DURING THE REPORTING PERIOD

i. Main businesses, major products and their usage, business model and key performance drivers

As at the end of the reporting period, the main business scope of the Company covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safe deposit box service, foreign exchange settlement and sale, sideline insurance agency and other services approved by China Banking Regulatory Commission (“CBRC”).

The Company provided enterprises with financing and cash management services through such business series as credit business, asset management, financial markets, asset custody and “cash management toolkit”.

The Company purveyed individualized, diversified and network-based financial services including deposit, loan, wealth management, fund, insurance, precious metal and credit card to individuals and also developed mass wealth management, elderly finance, community finance and going-abroad finance brands.

Please refer to Section IV “Discussion and Analysis of Operations – Business Review” of the report for details.

ii. Industry's development stage, cyclical characteristics and the Company's position in the industry

At present, there are still many prominent problems and conflicts in the economic operation of China, which can be attributed to cyclical and total amount factors, but the root cause is the grave structural imbalance. Internationally, the global economy is undergoing a profound adjustment, making complicated, instable and uncertain issues further emerge. Domestically, the foundation for stable operation of economy is still not solid, the divergence continues in regional and industrial development trends, while the difficulties and risks cannot be underestimated. Commercial banks are facing a severe test in terms of their asset quality, risks are transferring across industries and markets at a faster speed, and the illegal fund-raising risk remains dire. Banks are finding it increasingly difficult to strike a balance between risk prevention and growth stabilization, and it is urgent for banks to optimize the supply of financial resources, improve the quality and efficiency of service provided to the real economy and the risk management system and enhance the anti-risk capabilities in the face of more acute challenges.

Challenged by the downturn of real economy, greater financial risks, fiercer market competition and many other adverse factors, the Company earnestly carried out the requirement of administering the Party strictly, actively acted upon the decisions and arrangements by the Central Government, Beijing Municipal Government and regulatory authorities, stuck to the overall tone of seeking improvement while ensuing stability and the new development concept, embraced difficulties to pursue development and launched reform to boost transformation centering on the support to deepen the supply-side structural reform. Thanks to these efforts, the Company succeeded in realizing healthy and stable operation, maintaining stable market share in the banking industry and steadily moving higher in the comprehensive ranking of world's banks.

II. MATERIAL CHANGES IN PRIME ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

The Company's prime assets include loans and advances granted, held-to-maturity investments, balances with central banks, investment receivable, financial assets under reverse repurchase agreements, due from and placements with banks and other financial institutions and available-for-sale financial assets. At the end of the reporting period, the balance of held-to-maturity investments increased by RMB151,050 million or 77.64% over the year beginning to RMB345,593 million; the balance of investment receivable grew by RMB119,918 million or 154.81% over the year beginning to RMB197,378 million; the balance of due from and placements with banks and other financial institutions added by RMB84,286 million or 170.30% over the year beginning to RMB133,780 million. The main reason why the above-mentioned asset items have changed significantly is because the Bank appropriately increased inter-bank business and expanded investment scale in line with the market conditions for own development.

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

Clear development strategy. The Company continued to deeply implement the strategy of customer-centered “SME Financial Service Provider”, improved the marketing mechanism, accelerated operational transformation, strengthened standard operation and enhanced the quality and efficiency of services. To actively implement the “second bank” development strategy, the Company gradually improved the marketing functions and scenario-based application of e-banking and built up a good foundation for provision of diversified financial services.

A perfect service system. The Company continued to build the “Hua Xia Service” brand, promulgated a series of policies aimed at standardizing the management of services and preliminarily established a financial service system characterized by “specialized operation, process management, individual assessment and three-dimensional marketing”. The Company continued to improve the layout of establishments, broadened the service channels, put in place more outlets to provide services and improve the service process for better customer experience.

Strong regional competitiveness. In strict accordance with the national plan on coordinated development of the Beijing-Tianjin-Hebei region, the Company researched and prepared the overall plan of Hua Xia Bank on serving coordinated development of the Beijing-Tianjin-Hebei region with a focus on the reform blueprint determined in the national plan and included the overall plan into the whole bank’s strategic deployments. What’s more, the Company made a scientific planning on priorities and objectives of work in the future and continued to improve the all-around financial services for the integration of transportation, treatment of ecological environment and industrial upgrade and transfer in the Beijing-Tianjin-Hebei region.

SECTION IV DISCUSSION AND ANALYSIS OF OPERATIONS

I. DISCUSSION AND ANALYSIS OF OPERATIONS

During the reporting period, the Company firmly implemented the strategy of “SME Financial Service Provider”, constantly developed “Hua Xia Service” brand, actively carried out various strategic development measures, quickened the business transformation, regulated operation, improved service quality and efficiency, and achieved all its annual business objectives.

i. Steady business expansion.

At the end of the reporting period, the Group’s total assets reached RMB2,356,235 million, an increase of RMB335,631 million or 16.61% over the beginning of the year, 7.48 percentage points higher than the growth of the previous year; total loans increased by RMB147,482 million or 13.79% over the beginning of the year to RMB1,216,654 million.

ii. Stable business performance

During the reporting period, net profit attributable to equity holders of the listed company stood at RMB19,677 million, an increase of RMB794 million or 4.20% compared with the same period of previous year. Operating income increased by RMB5,181 million or 8.80% compared with the same period of previous year to RMB64,025 million. Return on assets (ROA) and return on equity (ROE) were 0.90% and 15.75% respectively.

iii. Further optimized business structure

First, asset and liability structure further improved. The Company pushed forward basic deposit management and saw positive changes in deposit structure, including rising contribution of active financing and proportion of high-yield assets. Second, income structure further improved. Development of such business as credit card, financial market, asset custody and asset management was accelerated, driving the growth of fee-based business income, which reached RMB16,281 million, a year-on-year increase of RMB2,644 million or 19.39%. The fee-based business income took up a share of 25.43%, up 2.26 percentage points over the same period of last year. Third, cost structure further improved. The Company established the market price comparison mechanism of interest corridor management, with deposit interest rate down 0.61 percentage points compared with the same period of last year to 1.69%. The Company specified expense standards, and skewed resources to key business. Cost-to-income ratio decreased by 0.28 percentage points compared with the same period of last year to 34.50%.

iv. Further improved quality and efficiency of serving the real economy

First, the Company continued to deepen financial services for such national strategies as coordinated development of the Beijing-Tianjin-Hebei region. The Company increased credits for projects relating to coordinated development of the Beijing-Tianjin-Hebei region. The number of accumulatively issued Beijing-Tianjin-Hebei coordination cards rose by 83.93% over the beginning of the year, and the number of customers which have signed ETC contracts in Beijing, Tianjin and Hebei rose by 16.34% over the beginning of the year. The Company made great efforts to support the city construction, major projects benefiting the masses and sub-center of Beijing, launched such innovative products as “Hi-tech Easy Loan” and “Entrepreneurship Easy Loan”, and boosted the development of technical, cultural and creative industries. Second, the Company strengthened its financial services for national strategies like the “Belt and Road” initiative and construction of the “Yangtze River Economic Zone”. Third, the Company continued to step up services for the real economy. The balance of green credits reached RMB45.4 billion, an increase of RMB5.4 billion over the beginning of 2016. In respect of small enterprise loans, the Company fulfilled the regulatory objective of “no less than three thresholds” in each quarter. The Company actively satisfied residents’ financial demands for upgrade of consumption structure, launched series products like community loan and Elite Loan, and upgraded the “going abroad” financial service-“Long Xing Wu Zhou”. The balance of personal loans rose by 12.79% from the same period of last year. Fourth, the Company actively performed social responsibilities, continuously carried out the “Hua Xia Star” small enterprise elite training camp, organized the donation for building the third Hua Xia Star “Chuxin” Library, and won the “Award of Most Socially Responsible Financial Institution” from China Banking Association.

v. Constantly deepened channel construction

First, the Company continued to perfect the layout of institutions. It opened two tier-1 branches in Harbin and Guiyang, established eight tier-2 branches and 97 outlets in the year, increasing the total number of outlets to 886. Second, the Company steadily advanced the construction of the “second bank”. The number of mobile banking, direct banking and internet banking customers grew by 68.61%, 158.92% and 25.50% over the beginning of the year respectively.

vi. Better risk control and regulated operation

First, comprehensive risk management went on effectively. The Company properly adjusted the organizational structure of comprehensive risk management, advanced the construction of such basic rules as comprehensive risk management policy and stress testing, and built a comprehensive risk analysis view and monitoring and reporting system; it intensified market risk monitoring and analysis; it optimized operational risk indicator system; it improved liquidity risk management mechanism, and maintained smooth liquidity management and control; it constantly strengthened management of business continuity, outsourcing, reputational and other risks. Second, credit risk management was further reinforced. The Company improved the Group’s credit risk management system, and strictly controlled the single group credit concentration; it specified the “monitoring, analysis, control and assessment” work mechanism for credit business, and put more efforts into non-performing loan recovery and disposal. Third, internal control and compliance case prevention was further enhanced. The Company optimized internal control system, strengthened specialized inspection and coordinated management, smoothly pushed forward case prevention management, and actively and properly handled anti-money laundering management.

II. BUSINESS HIGHLIGHTS

i. Analysis of principal activity

During the reporting period, the Group recorded an operating income of RMB64,025 million and an operating profit of RMB26,119 million, a year-on-year increase of 8.80% and 4.75% respectively. The growth was attributed to the steady business expansion, better profit structure and effective control of cost and expense.

1. Analysis of major indicators

(Unit: RMB1 million)

Item	2016	2015	Change (%)
Operating income	64,025	58,844	8.80
Operating profit	26,119	24,934	4.75
Net profit attributable to equity holders of the listed company	19,677	18,883	4.20
Net change of cash and cash equivalents	-71,563	110,740	-164.62

2. Breakdowns by geographical area

(Unit: RMB1 million)

Regions	Operating income	Change compared with previous year (%)	Operating profit	Change compared with previous year (%)
Northern China and Northeastern China	30,444	22.24	15,682	22.11
Eastern China	14,001	0.65	4,466	6.13
Central China and Southern China	11,290	-3.04	3,026	-24.73
Western China	8,290	-1.14	2,945	-23.76
Total	64,025	8.80	26,119	4.75

3. Changes in operating income

(Unit: RMB1 million)

Business type	2016	Percentage (%)	2015	Increase/ decrease compared with previous year (%)
Interest income from loans and advances	59,990	57.27	60,612	-1.03
Interest income from investment receivables	7,258	6.93	9,791	-25.87
Interest income from held-to-maturity investments	8,755	8.36	6,220	40.76
Interest income from financial assets held under resale agreements	2,867	2.74	4,989	-42.53
Interest income on due from central banks	3,318	3.17	3,663	-9.42
Interest income from available-for-sale financial assets	3,066	2.93	3,173	-3.37
Interest income from deposits in other financial institutions	1,670	1.59	1,627	2.64
Interest income from placements with banks and other financial institutions	971	0.93	787	23.38
Interest income of financial assets designated at fair value through profit or loss	347	0.33	462	-24.89
Fee income	16,124	15.39	13,435	20.01
Other business	380	0.36	389	-2.31
Total	104,746	100.00	105,148	-0.38

4. Explanations on reasons for major changes in profit composition, principal operation and structure, profitability of principal operation from the previous reporting period

Not applicable.

5. Analysis on cash flows of the Company

As at the end of the reporting period, net flow of cash and cash equivalents of the Group was RMB71,563 million of net cash outflows. Among them, net cash inflow from operating activities was RMB139,912 million, which was mainly attributed to the continuous strengthening of liquidity risk management and the balanced and coordinated development of asset and liability services. Net cash outflow from investing activities amounted to RMB267,533 million, mainly due to expansion of investment; net cash inflow from financing activities stood at RMB55,220 million mainly because of the issuance of financial bonds and preference shares.

ii. Explanation on material changes in profit due to non-principal operation

Not applicable.

iii. Analysis of changes in financial indicators

1. Changes in major financial indicators and the reasons

(Unit: RMB1 million)

Major financial indicator	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Total assets	2,356,235	16.61	Asset business growth
Total Liabilities	2,203,262	15.83	Liability business growth
Owner's equity attributable to equity holders of the listed company	152,184	29.32	Net profit was transferred in and preference shares were issued during the period
Major financial indicator	Reporting period	Increase/decrease compared with previous year (%)	Main reason
Operating income	64,025	8.80	Business size expanded and income grew
Operating profit	26,119	4.75	Business size expanded and profitability improved
Net profit attributable to equity holders of the listed company	19,677	4.20	Business size expanded and profitability improved
Net change of cash and cash equivalents	-71,563	-164.62	Investment scaled-up

2. Items with over 30% changes in the comparative accounting statements

(Unit: RMB1 million)

Major accounting item	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Due from banks	133,780	170.30	Due from banks and other financial institutions increased
Placements with banks and other financial institutions	15,868	-48.77	Placements with banks and other financial institutions decreased
Financial assets at fair value through profit or loss	4,939	-58.40	Held-for-trading financial assets decreased
Derivative financial assets	803	320.42	Derivative financial assets increased
Financial assets held under resale agreements	122,032	-50.25	Financial assets held under resale agreements decreased
Interest receivable	13,807	30.22	Interest receivables increased
Held-to-maturity investments	345,593	77.64	Held-to-maturity investments increased
Investment receivables	197,378	154.81	Investment receivable increased
Deferred income tax assets	5,984	30.94	Increase in deferred income tax asset
Due to central banks	108,005	259.69	Medium-term lending facility increased
Derivative financial liabilities	1,093	546.75	Derivative financial liabilities increased
Financial assets sold under repurchase agreements	106,696	32.56	Bonds sold for repurchase increased
Debt obligations payable	268,184	300.91	Interbank negotiable certificates of deposit and financial bonds issued
Other liabilities	24,455	121.45	Other liabilities increased
Other equity instruments	19,978	Not applicable	Issuance of preference shares
Other comprehensive income	22	-98.30	Fair value of available-for-sale financial assets changed

Major accounting item	Reporting period	Increase/decrease compared with previous year (%)	Main reason
Fee and commission expenses	1,468	38.10	Fee and commission expense increased
Investment gains/(losses)	717	487.70	Return on investment increased
Gains/(losses) from the changes in fair value	-494	-860.00	Fair value changed
Other operating income	27	-63.51	Other business income decreased
Tax and surcharges	1,941	-56.34	Business tax decreased due to the impact of the change from business tax to VAT
Asset impairment losses	13,865	54.42	Increase in allowance for impairment losses on assets
Non-operating income	172	-48.04	Non-operating income decreased

iv. Analysis of major income statement items

1. Interest income

(Unit: RMB1 million)

Item	2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans and advances	49,433	56.02	50,273	55.05
Personal loans and advances	9,726	11.02	10,035	10.99
Discounted bills	831	0.94	304	0.33
Investment receivables	7,258	8.23	9,791	10.72
Held-to-maturity investments	8,755	9.92	6,220	6.81
Financial assets held under resale agreements	2,867	3.25	4,989	5.46
Balances with central banks	3,318	3.76	3,663	4.01
Available-for-sale financial assets	3,066	3.48	3,173	3.48
Due from banks	1,670	1.89	1,627	1.78
Placements with banks and other financial institutions	971	1.10	787	0.86
Financial assets at fair value through profit or loss	347	0.39	462	0.51
Total	88,242	100.00	91,324	100.00

2. Interest expense

(Unit: RMB1 million)

Item	2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Due to customers	22,519	57.37	29,574	65.37
Due to banks and other financial institutions	5,685	14.48	10,415	23.02
Placements from banks and other financial institutions	1,816	4.63	1,601	3.54
Financial assets sold under repurchase agreements	1,413	3.60	1,131	2.50
Debt obligations payable	6,094	15.52	1,596	3.53
Due to central banks	1,726	4.40	924	2.04
Total	39,253	100.00	45,241	100.00

3. Fee and commission income

(Unit: RMB1 million)

Item	2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Wealth management service	5,840	36.22	5,431	40.42
Bank card business	4,999	31.00	3,097	23.05
Agency business	1,838	11.40	1,657	12.33
Credit commitments	1,460	9.05	1,621	12.07
Custody and other fiduciary services	890	5.52	1,042	7.76
Leasing service	572	3.55	303	2.26
Other business	525	3.26	284	2.11
Total	16,124	100.00	13,435	100.00

4. Operation and administrative expenses

(Unit: RMB1 million)

Item	2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Staff remuneration and welfare	13,260	60.04	12,496	61.06
Business expenses	5,886	26.65	5,142	25.12
Depreciation and amortization	2,940	13.31	2,828	13.82
Total	22,086	100.00	20,466	100.00

5. Income tax expenses

(Unit: RMB1 million)

Item	2016	2015
Pre-tax profit	26,243	25,205
Income tax at statutory tax rate of 25%	6,561	6,300
Adjustment of current-period income tax during previous years	-	-1
Plus: Tax effect of non-deductible expense	1,312	741
Less: Tax effect of tax-exempt income	1,386	787
Total	6,487	6,253

v. Analysis of assets

1. Loan extensions

(1) Loan extensions by industry

(Unit: RMB1 million)

Industry	At the end of the year		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	214,201	17.60	213,414	19.96
Wholesale and retail	155,962	12.82	147,267	13.77
Leasing and commercial services	155,004	12.74	110,083	10.30
Real estate	90,119	7.41	78,867	7.38
Construction industry	83,378	6.85	84,291	7.88
Water conservancy, environment and public facilities management	65,591	5.39	42,344	3.96
Transportation, warehousing and post industry	49,758	4.09	50,704	4.74
Mining industry	33,016	2.71	31,930	2.99
Electric power, heat, gas and water production and supply industry loans	32,206	2.65	25,366	2.37
Other corporate industries	64,302	5.29	52,523	4.92
Discounted bills	27,459	2.26	31,478	2.94
Personal loan	245,658	20.19	200,905	18.79
Total	1,216,654	100.00	1,069,172	100.00

During the reporting period, the Group supported the development of real economy, actively promoted and channeled more credit resources to infrastructure construction, people's livelihood projects, green credit, strategic and emerging industries as well as other key industries and good-quality customers, and continued to adjust and control the risk and credit demands in overcapacity industries, real estate, trade finance and other key fields. The Group promoted the balanced growth and healthy development of industrial credit structure.

(2) Loan extensions by geographical area

(Unit: RMB1 million)

Geographical area	At the end of the year		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	457,647	37.62	391,413	36.61
Eastern China	331,551	27.24	300,165	28.07
Southern and Central China	262,995	21.62	225,674	21.11
Western China	164,461	13.52	151,920	14.21
Total	1,216,654	100.00	1,069,172	100.00

(3) Particulars of top 10 borrowers

(Unit: RMB1 million)

	Balance	Percentage (%)
Top 10 borrowers	33,868	2.89

During the reporting period, the Company strictly controlled the loan concentration risk. The total balance of top 10 borrowers amounted to RMB33,868 million, accounting for 2.89% of total loans and 19.51% of net capital at the end of the period, respectively, which were controlled within the regulatory requirements.

(4) Classification of loans by guarantee method and percentages

(Unit: RMB1 million)

	At the end of the year		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Unsecured loans	196,635	16.16	152,988	14.31
Guaranteed loans	462,333	38.00	374,272	35.00
Collateral loans	557,686	45.84	541,912	50.69
– Mortgage loans	433,433	35.63	405,643	37.94
– Pledge loans	124,253	10.21	136,269	12.75
Total	1,216,654	100.00	1,069,172	100.00

2. Major loans and interest rates

(1) Major loans and interest rates by business category

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Corporate loans	899,784	50,264	5.59
Retail loans	217,344	9,726	4.47
Total	1,117,128	59,990	5.37

(2) Major loans and interest rates by term

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
General short-term loans	497,838	25,201	5.06
Medium and long-term loans	619,290	34,789	5.62
Total	1,117,128	59,990	5.37

Note: General short-term loans include discounts.

3. Financial assets held under resale agreements

(Unit: RMB1 million)

Item	End of 2016		End of 2015	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	120,666	98.88	145,885	59.47
Bills	1,366	1.12	99,412	40.53
Total	122,032	100.00	245,297	100.00

vi. Analysis of liabilities

1. Due to customers

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Corporate demand deposits	444,691	3,810	0.86
Corporate time deposits	654,140	14,316	2.19
Savings demand deposits	97,078	266	0.27
Savings time deposits	139,973	4,127	2.95
Total	1,335,882	22,519	1.69

2. Financial assets sold under repurchase agreements

(Unit: RMB1 million)

Item	End of 2016		End of 2015	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	106,462	99.78	69,670	86.56
Bills	234	0.22	10,821	13.44
Total	106,696	100.00	80,491	100.00

3. Due to banks and other financial institutions

(Unit: RMB1 million)

Item	End of 2016		End of 2015	
	Balance	Percentage (%)	Balance	Percentage (%)
Due to domestic banks	89,006	39.53	132,295	48.96
Due to overseas banks	579	0.26	1,020	0.38
Due to other domestic financial institutions	135,548	60.21	136,885	50.66
Total	225,133	100.00	270,200	100.00

vii. Analysis of investments

1. Material equity investments

During the reporting period, the Group did not make any material equity investments.

(1) Holdings in other listed companies

(Unit: RMB1 million)

Stock code	Stock name	Initial investment cost	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
V	Visa Inc.	1	0.0003	1	0.03	-	Available-for-sale financial assets	Membership fees converted to shares

(2) Holdings in unlisted financial corporations and companies to be listed

(Unit: RMB1 million)

Name	Initial investment cost	Number of shares held (1 million shares)	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
China UnionPay Co., Ltd.	81	62.50	2.13	81	5.01	-	Available-for-sale financial assets	Investment with self-owned capital
Beijing Daxing Hua Xia Village Bank Co., Ltd.	100	100	80	100	-	-	Long-term equity investments	Investment with self-owned capital
Kunming Chenggong Hua Xia Village Bank Co., Ltd.	35	35	70	35	-	-	Long-term equity investments	Investment with self-owned capital
Sichuan Jiangyou Hua Xia Village Bank Co., Ltd.	35	35	70	35	-	-	Long-term equity investments	Investment with self-owned capital
Huaxia Financial Leasing Co., Ltd.	2,460	2,460	82	2,460	-	-	Long-term equity investments	Investment with self-owned capital

Note: The cost method was adopted for accounting of the Group's equity investments above. Except actual payments upon investment or announced but unpaid cash dividends/profits in consideration, cash dividends/profits announced by investees for distribution were recognized as return on investment into current profit or loss.

2. Material non-equity investments

Not applicable.

3. Financial assets measured at fair value

During the reporting period, the Company measured held-for-trading bonds and available-for-sale bonds at fair value, which were determined by means of quotation, transaction price or yield curve. The yield curve published by China Government Securities Depository Trust & Clearing Co., Ltd. was used as the RMB-denominated bond yield curve, and the yield curve provided by the Bloomberg system was adopted as the foreign currency-denominated bond yield curve.

Items related to Fair Value Measurement^{Note}

(Unit: RMB1 million)

Item	At the beginning of the period	Gain/(loss) on changes in fair value during the period	Accumulated changes in fair value through equity	Provision for impairment during the period	At the end of the period
Financial assets at fair value through profit or loss	11,872	-182	-	-	4,939
Derivative financial assets	191	612	-	-	803
Available-for-sale financial assets	73,118	-	22	2	92,170
Total financial assets	85,181	430	22	2	97,912
Derivative financial liabilities	169	-924	-	-	1,093

Note: There is no necessary articulation in the table.

viii. Material asset and stock right sales

Not applicable.

ix. Analysis of major equity participation companies

1. Beijing Daxing Hua Xia Village Bank Co., Ltd.

The bank with a registered capital of RMB125 million started operation in December 2010, in which the Company holds an 80% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB1,167,654,700 and RMB120,839,300 respectively. The deposit balance increased by 80.01% year on year to RMB1,033,081,400; the loan balance rose by 61.97% year on year to RMB533,296,400. During the reporting period, the bank recorded a negative net profit of RMB14,772,800.

2. Kunming Chenggong Hua Xia Village Bank Co., Ltd.

The bank with a registered capital of RMB50 million started operation in August 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB539,997,800 and RMB63,904,300 respectively. The deposit balance increased by 5.17% year on year to RMB449,190,800; the loan balance rose by 14.34% year on year to RMB402,448,600. During the reporting period, the bank generated a net profit of RMB6,453,200.

3. Sichuan Jiangyou Hua Xia Village Bank Co., Ltd.

The bank with a registered capital of RMB50 million started operation in December 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB909.58 million and RMB80,898,500 respectively. The deposit balance increased by 22.41% year on year to RMB810,333,600; the loan balance rose by 18.78% year on year to RMB564,901,500. During the reporting period, the bank generated a net profit of RMB8,168,300.

4. Huaxia Financial Leasing Co., Ltd.

The company with a registered capital of RMB3 billion started operation in May 2013, in which the Company holds an 82% stake. At the end of the reporting period, the company's total assets, total liabilities and net assets were RMB45,907 million, RMB41,899 million and RMB4,008 million respectively. During the reporting period, the company generated a net profit of RMB433 million.

x. Structured entities controlled by the Company

Not applicable.

xi. Business review

1. Corporate banking

During the reporting period, the Company actively accommodated to the new normal of economic development, established the market positioning, and embraced the development opportunities. It firmly implemented the strategy of "SME Financial Service Provider", enhanced financing and cash management service capacity, and increased the reserves of classified development and financing business projects of customers. It strengthened product innovation and application, quickened the transformation and development of supply chain business, expanded customer base and business scale, improved profitability and achieved remarkable results. In respect of corporate deposit organization, the Company strove to attract low-cost funds and settlement funds and pushed forward the steady growth and structural optimization of corporate deposits. At the end of the reporting period, the average daily corporate demand deposits of the Company increased by RMB80,603 million or 22.14% over the previous year.

The Company continued to persist in “customer-centered”, focusing on multi-level classified development of customers. It grouped key customers, and developed customer cluster by the development modes of three types of customers of chain, business line and source; relying on key customers, it provided cash management services to broaden customer base. It energetically developed public finance and public institution customers, actively advanced the IT application to the central non-tax fiscal revenue collection, and improved services. At the end of the reporting period, the Company’s corporate customers numbered 413,300, an increase of 53,200 or 14.76% over the beginning of the year.

In accordance with the market and customer needs, the Company enhanced product innovation and application, and stepped up product support for customer services. The Company developed the products such as trading fund monitoring, raised fund monitoring, corporate smart time deposits, corporate time certificates of deposit custody, agency issuance of L/G and supply chain finance commercial acceptance draft collateralized financing, and improved the business including bill pool and domestic factoring. It provided customers with integrated cash management services of settlement services and financial and asset management by means of cash management toolkit. It actively carried out credit asset securitization business and accelerated asset turnover. During the reporting period, credit asset securitization conducted via the public offering channel amounted to RMB16,531 million, ranking second among all joint-stock banks in terms of business scale. According to the changes in macro policy and market environment, the Company actively furthered the transformation of supply chain finance, and strengthened the capability of services for such key industries as construction, leasing and automobile. During the reporting period, the business volume of supply chain finance exceeded RMB500 billion.

The Company further cultivate the green financial service brand of “Green Growth, Beautiful Hua Xia”, and optimized and expanded green credit business. The Company made efforts to develop such green credit on-lending projects of foreign governments, and exclusively undertook the Innovative Financing for Air Pollution Control in Jing-Jin-Ji Program of the World Bank, the first project in China that adopted the “results-oriented loan tool” of the World Bank. As at the end of the reporting period, the energy efficiency loan project of the World Bank and the intermediate green credit project of the French Development Agency had provided support for 52 sub-projects of 39 enterprises in the country, accumulatively saving 2.09 million tons of standard coal, reduced 4.19 million tons of carbon dioxide emission, and covering 15 provinces, autonomous regions and municipalities, such as Beijing, Hebei, Shanxi, Inner Mongolia, Jilin, Heilongjiang, Jiangsu, Fujian, Shandong, Henan, Hunan, Guangdong, Chongqing, Shaanxi and Gansu.

In respect of international business, the Company was dedicated in providing customers with integrated trade finance services of local and foreign currencies, domestic and foreign trade and at home and abroad, kept speeding up transformation and development, and refined management. It continued to advance overseas correspondent bank network construction, actively supported Chinese-invested enterprises going global, and participated in the economic and trade cooperation with and development and construction of the “Belt and Road” countries. The Company boasted a presence of 1,572 correspondent banks in 375 cities of 115 countries and regions across five continents. During the reporting period, the number of international business customers topped 20,000, an increase of nearly 10%; fee-based business income grew more than 20%; forfaiting business doubled to over RMB200 billion. The Company successively launched such sub-brands as “Service Trade Express” and “Zhiying Youfu” under the “Huanqiu Zhiying” service brand, and constantly improved international business products and services. It won the “2016 Trade Finance Bank” from the *Hua Xia Times*, and its forfaiting series product and service program won the “Golden Tripod Award” in China International Financial Exhibition.

2. SME business

During the reporting period, the Company firmly implemented the strategy of “SME Financial Service Provider”, responded to the country’s macro policy, supported the real economy development, and improved financial services for small and micro enterprises. At the end of the reporting period, the number of the Company’s small and micro enterprise customers approached to 360,000, and that of loan customers increased by 11.05% year on year to 28,300. The balance of small and micro enterprise loans reached RMB271,419 million, a year-on-year increase of 14.92%, 1.45 percentage points higher than the average growth of various loans of the Bank. 91.25% of applications for small and micro enterprise loans were approved, a year-on-year increase of 0.07 percentage points. During the reporting period, the Company fulfilled the regulatory objective of “no less than three thresholds” for small and micro enterprises, and improved both operating results and social benefits.

During the reporting period, while strengthening the construction of service institutions, the Company deeply improved marketing mechanism, guided operating institutions to advance multi-level marketing, built a win-win ecological system integrating “customers, customer managers and business lines”, and gradually realized a win-win beneficial cycle of resource sharing and multi-level interaction, to fully meet customers’ growth demands.

Following the marketing strategy of “looking for sesame on the pancake”, the Company gradually improved a risk management mode suited to the characteristics of small and micro enterprise customers, implemented the customized, standardized and batch credit process, and effectively perfected customer experience. Being industry-oriented, the Company optimized credit structure, supported such financial service brands as technical loan, education loan and cultural and creative industry loan, and smoothly and effectively served small and micro enterprise customers.

The Company constantly improved unique small and micro enterprise product mix combining online and offline products. During the reporting period, in light of the concept of “targeted marketing, platform connection and chain-based development”, while continuously strengthening promotion of revolving loan products, the Company further upgraded annually reviewed loan, online loan, housing mortgage loan and other competitive products, and creatively launched e-business loan. E-business loan is a financing service rendered based on mass data analysis and operating results of e-business customers, to meet e-business enterprises’ capital turnover demands featuring “small amount, high frequency and short term”. During the reporting period, the Company actively developed cooperation channels, got connected with the tax system, integrated the credit reference information and developed “Bank-Tax Link”, and provided financing services for high-quality tax payers which are small and micro enterprises. It teamed up with insurance institutions to launch “Bank-Insurance Link”, in a move to ease small and micro enterprises’ difficult and unaffordable financing problem.

During the reporting period, following the development trend of internet finance, the Company explored an “internet plus small and micro enterprises” comprehensive financial service mode characterized by “cluster-based customer development, systematic customer screening, platform-based marketing and online product sales”, and gradually build a small and micro enterprise comprehensive financial service platform integrating “lending, settlement and customer services”. At the end of the reporting period, the Company accumulatively granted 92,000 loans to online small and micro enterprises in 2016, in a total amount of RMB10,385 million, with an average amount of RMB112,900 per loan. 124,200 loans were repaid accumulatively, amounting to RMB9,293 million.

3. Personal banking

During the reporting period, the Company actively planned on the strategies, such as transformation of banking development momentum and the supply-side structural reform of services and services for the real economy development, took the strengthening of personal and retail banking as an important of development strategy and the key implementation direction, cemented the development foundation, enhanced endogenous growth, strove to reinforced the infrastructure construction of personal banking customers, products, channels, scenarios and cross-selling, and improved development quality. The Company actively responded to the demands for reform of retail banking development model of commercial banks in the era of internet, quickened the process, technique and service innovation, and made efforts to improve new-generation mobile banking and the ecosystem of financial services for smart community and car owners, accelerated the integration of financial services and scenario services, combined online and offline service channels, and improved personal banking development capability by “second bank construction”. At the end of the reporting period, average daily personal deposits (including current savings deposits, time savings deposits and personal structured deposits) of the Company reached RMB236,490 million, an increase of RMB13,126 million or 5.88% over the previous year.

The Company cultivated key customer groups and developed unique services. It vigorously advanced the construction of Hua Xia ETC service system, which had covered 16 branches in China. The number of customers which had signed Hua Xia ETC contracts reached 1,165,700, a year-on-year rise of 31.39%, further expanding influence in the market. The number of Hua Xia Bank Beijing-Tianjin-Hebei coordination card holders reached 1,025,700, and Beijing-Tianjin-Hebei personal business local express service system gradually improved. The Company bettered “Splendid Life” elderly medical treatment, pension, leisure, learning, travel and financing service system, and endeavored to enhance the brand influence of exclusive elderly finance products. It upgraded the going abroad financial service brand “Long Xing Wu Zhou”, and enriched studying abroad, travel, immigration, tax rebate, currency exchange and other going abroad financial services. Initial progress was made in construction of community sub-branch marketing system, and a community service network has taken shape.

The Company served the upgrade of service structure and reinforced consumer credits. In respect of personal business, the Company continued to develop three business segments of consumer loans of the Bank, i.e. dwelling, working and living, in line with the growth trend of residents’ consumption demands. While maintaining the stable growth of personal housing loans, the Company granted RMB4 billion of unsecured loans of Hua Xia Elite Loan and Hua Xia Ji Jin Bao for medium and high-end quality personal customers in 2016, and achieved rapid business growth. At the end of the reporting period, the balance of personal consumption loans of the Company increased by RMB16,177 million or 12.76% over the previous year to RMB142,921 million.

The Company expanded wealth management business and improved brand value. In respect of personal business, the Company constantly enriched Hua Xia Bank Longying Wealth Management product, strengthened the marketing of such new products as net-worth product, profit-increased open-ended product and USD wealth management products, launched Xinying series (new customers), Jiaheying series (community sub-branches), Cheying (ETC customers), Zengxinying series (agency payroll payment customers), Shengying series (highlight products) and other product series, and saw quick development of bank-securities third party depository, agency sales of insurance products and saving treasury bonds and other services.

The Company reinforced channel construction and innovated in payment services. During the reporting period, the Company launched Apple Pay mobile payment application covering debit and credit cards, as well as cloud flash-pay mobile payment services, including debit card HCE mobile payment, China UnionPay cloud flash-pay App project and credit card Huawei Pay, and MI Pay. At the end of the reporting period, Hua Xia debit cards issued accumulated to 33,190,900, and financial IC debit cards increased by 53.49% year on year. The Company closely followed the market to quicken the innovation of Hua Xia card acquiring business, launched intelligent POS terminal, MPOS, intelligent card issuance robot and other innovative products, and exerted to push forward the transformation of new-generation comprehensive and smart acquiring services with the functions of traditional settlement, cloud flash-pay and WeChat payment by scanning codes.

The Company quickened outlet transformation and advanced data-based marketing. The Company accelerated the construction of pilot smart outlets, including Beijing, Nanjing and Shenzhen branches, in light of the concept of small-sized and intelligent development". It actively pushed forward the construction of ecosystem of financial services for "Smart Community" and "Car Owners", and sped up the comprehensive marketing of financial products and customers' scenes of life. It developed and rolled out personal analysis CRM system, and created personal business data-based marketing system. It explored big data value and kept improving the refined management of personal business.

In respect of credit card business, the Company focused on the comprehensive management and operation transformation as a breakthrough, constantly advanced marketing, broadened customer base, strengthened comprehensive management and stepped up the overall scale and development capability of credit card business to a new level. The number of cards newly issued in 2016 increased by 94% year on year, and that of cards issued accumulatively reached 11.54 million. The Company ranked first and second among joint-stock banks in terms of active card growth rate at the end of the period and total income growth rate respectively. The Company continuously developed high-end card product mix, upgraded such high-end products as Zunshang Card and Global Card, and promoted the rapid development of high-end card business which maintained a high proportion. It actively advanced product innovation, and launched its first unphysical electronic credit card-Hua Xia E-Pay Card, with such functions as free control of trading switch, single trading limit and daily cumulative trading limit. In addition to convenient and quick payment, it can effectively mitigate internet trading risks. The Company actively developed internet premier wealth management business, and launched online credit card application services through such e-channels as WeChat, mobile banking, cloud platform and other PC and mobile terminal application portals, and 23 internet enterprises as external channels, broadening customer on-boarding sources and building new customer on-boarding channels. It promoted WeChat banking development, rolled out more than 20 financial service functions and improved the use activity of customers. It developed and launched credit card steward APP and bettered customer experience.

In 2016, in the selection by China Banking Association in 2016, the Company won the "2016 Bank Card Business Innovation Award". In the UnionPay card selection by China UnionPay, the Company won the "2016 UnionPay Card Marketing Activity Excellence Award". Hua Xia Elite Global Credit Card won the "Annual Best Cross-border Credit Card Product" award at the financial selection by ifeng.com and ifeng.com in 2016.

4. Financial market business

During the reporting period, the Company, through strengthening product and business innovation, actively promoted strategic transformation of businesses, vigorously developed financial market business, increased added value of traditional business, enhanced comprehensive capability of serving customers and further optimized business income structure.

The Company actively responded to the market changes and enhanced investment capability by strengthening the judgment of macro-economic situation and operation trend of bond market. While maintaining the steady growth of total scale, the Company appropriately adjusted bond duration and position structure, and continuously and stably improved the return on bond investment. It further participated in the market and expanded trading volume by currency trading, bond trading, foreign exchange trading and commodity trading. In 2016, the Company completed 24,104 inter-bank lending transactions and pledged repurchase transactions, amounting to RMB34,605,323 million. In 2016, the accumulative amount of RMB and foreign-currency treasury transactions reached RMB6,376,873 million, a year-on-year increase of 76.98%.

Debt financing instrument underwriting was confronted with such external unfavorable factors as limited growth room of total market scale and fiercer competition of lead underwriting business. The Company remained steadfast to underwriting business. It formulated the guidelines on underwriting of bond financing instruments to clarify the priorities of work, and closely followed and quickly responded to the regulatory policy changes and market developments. It fully grasped the characteristics of enterprises and their industries, and adopted various underwriting methods, including exclusive lead underwriting, co-lead underwriting and financial advisory, to expand market share and drive the development of the whole bank's debt financing instrument underwriting business. During the reporting period, the Company completed the issuance of RMB91,448 million, basically maintaining its market share.

With the theme of development and innovation, the Company improved wealth management products by innovation, and successively launched USD wealth management products, wealth management products without a fixed term and mobile banking exclusive wealth management products in accordance with regulatory orientation and customer demand for wealth management business. It constantly enhanced construction of interbank channels, deepened brand effect and launched the integrated financial service plan of "investment, financing, advisory and trust" for listed companies. It further selected outstanding partners, broadened investment channels, and strengthened product R&D for structured financing projects and capital market financing projects. It adjusted standardized asset investment strategy on a real time basis according to market developments, effectively implemented new investment strategy of IPO subscription funds, and continuously improved the comprehensive rate of return of investment portfolio. During the reporting period, cumulative sales volume of wealth management products of the Company stood at RMB2,374,820 million, an increase of 43.79% year on year. At the end of the reporting period, wealth management products had a balance of RMB745,521 million, up 59.57% year on year.

In 2016, the Company won the honorary title of “Outstanding Dealer” in China’s bond market (sponsored by China Government Securities Depository Trust & Clearing Co., Ltd.), the “2016 Best Universal Investment Bank In China” in the selection of outstanding investment banks in China (sponsored by the *Securities Times*), the “Best Bidding and Market Making Institution”, “Award for Biggest Progress in Market Making Made by Market Making Institutions” and “Award for Biggest Progress in Trading Made by Market Making Institutions” (sponsored by China Foreign Exchange Trade System), the “Innovative Wealth Management” award in the fourth comprehensive selection of banks (sponsored by sina.com.cn), the awards of “2016 Best Wealth Management Brand in China” and the “2016 Best Steady Income Bank Wealth Management Product in China” in the selection of best wealth management institutions in China in 2016 (sponsored by the *Securities Times*), the “2016 Best Risk Control Bank” award in the selection of the Ninth Golden Shell Award for asset management in China (sponsored by the *21st Century Business Herald*), the “Annual Excellent Asset Management Bank” in the selection of 2015-2016 China excellent finance award (sponsored by the *Economic Observer*), and the “China Tripod” best asset management bank award (sponsored by China.com.cn).

5. E-banking

During the reporting period, the Company deeply implemented the “second bank” development strategy, practiced the “innovation, coordination, green, open and sharing” development concept, and actively responded to the profound changes in the development environment. It gave full play to the role of e-banking in driving customer services and marketing organizations, strengthened e-banking brand building, product innovation and marketing, and deepened platform cooperation. It constantly improved smart services, strengthened customer experience, strove to meet customers’ financial and non-financial demands, and enabled the general public to have equal access to financial services.

The Company deepened the construction of smart service channel system. It gradually created a mobile, intelligent and platform-based “smart e-banking” driven by innovation and technologies, with unique scenario services and controllable, which can be connected internally and externally, forming a pattern of mutual support and coordinated development of offline physical channels and online channels like internet banking, mobile banking and direct-marketing banking.

The Company quickened product and service innovation. In line with the development trend of internet finance, the Company employed the customer experience and experience customer mechanism to enable product design and channel construction to be more aligned with customer demands and strengthened the promotion and application of new products and new business formats under “Internet plus”. It exerted to create the mobile banking version 4.0 centering on real time interconnection, smart services and natural interaction, launched emerging payment tools such as mobile banking QR code collection, cloud flash-pay and “Moment” remittance, and enriched the functions of mobile financial channels. Based on mobile banking, it created such mobile financial ecosystem as “Perfect Life”, “Car Owners” and “Smart Community”, and built three-dimensional mobile financial consumption scenarios focusing on “clothing, food, shelter, transportation, health, education, insurance and amusement”. It launched an updated version of “Hua Xia Dragon Network Plus”, carried out a number of marketing campaigns with different thematic characteristics and practiced the concept of inclusive finance. During the reporting period, the Company won the awards of the “Best Mobile Banking Functions in China” conferred by China Financial Certification Authority (CFCA) and the “Best Mobile Banking Award for 2016” by China Internet Weekly.

The Company made great efforts to acquire active customers from platforms and network. It joined the national financial union of joint stock commercial bank network, established the channel for mutual recognition of accounts, and broadened channels for online opening of Type-II and III accounts, to constantly meet internet long-tail customers' demands for financial services. It expanded the payment scenarios such as fund withholding and margin freezing of Type-II accounts, and completed the cooperation with PICC on car insurance sales and with Yunyu Group on tourism within and outside the province and other online services. It innovated in traditional business modes relying on internet payment platform, launched Salary Pal and other product solutions, and solved such problems as industrial chain information exchange, fund settlement and monitoring and retrospection management. It furthered cooperation with Alipay, Tenpay and other non-banking payment institutions, and optimized payment tools to meet the needs for merchant operation and convenient payment of internet users. During the reporting period, the transaction volume and value of personal online banking payment increased by 2.3-fold and 4.5-fold year on year, driving fee-based business income up 2.1-fold.

The Company actively strengthened application of FinTech. It introduced such technologies as big data and biological recognition, exerted to develop new online channels and new internet premier wealth management business, and realized the leapfrog development from trading products to smart products. It improved system extensibility, reliability and service capability by cloud upgrade of infrastructure, to provide strong support for internet marketing campaigns like Red Wars and Rob Happiness. It built the data access and analysis, information publication and user contact platform under coordinated management, and preliminarily formed the big data service capability. It established a multi-media integrated customer service center, optimized smart voice and video services and laid a foundation for the coordinated multi-channel services. During the reporting period, the Company won the Customer Service Center – “Comprehensive Model Award” from China Banking Association.

The Company strove to prevent and control new network fraud risk. It was one of the institutions first connected to the management platform of public security organs for new illegal transaction risk events through telecommunication network, and fully enhanced early warning of transactions and ex post interception capability. It deeply implemented the anti-fraud joint handling mechanism and strengthened the capability of prior prevention, identification and ex post handling of risks. It strengthened public education, routinized the WeChat public of “Anti-fraud Instruction”, provided customers with anti-fraud tricks and enhanced customers' awareness of fraud prevention.

During the reporting period, the scale of the Company's e-banking customers expanded steadily, and customer quality improved remarkably. The number of mobile banking customers, direct banking customers and internet banking customers increased by 68.61%, 158.92% and 25.50% respectively in comparison with the beginning of 2016; the activity of mobile banking customers rose by 6.04 percentage points year on year, and the volume of e-banking transactions grew by 113.71% year on year.

III. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

i. Industry competitive pattern and development trend

In the future, China's economic structure will undergo profound changes. The contribution of net exports to economic growth is diminishing; the key points and hot spots of investment are changing; there is much leeway for consumption growth; residents' wealth growth and consumption structure upgrade continue to evolve. These, coupled with the rising proportion of service industry, transformation and upgrade of manufacturing industry and acceleration of green industry, provide business opportunities for banks' optimization of business structure and innovation in financial services. Meanwhile, de-leverage and capacity cut will quicken the survival of the fittest of the real economy, and the accelerated accumulation of credit risk will pose challenges to the banking industry's risk control capability. The active and innovative financial market will create conditions for the banking industry to develop emerging business, increase non-interest income and improve income structure. At the same time, it will be a challenge to the industry's capability of controlling market and liquidity risks. Application of the new-generation technology will drive a profound transformation of banking operation and development, quicken the application of such new technologies as cloud computing, artificial intelligence, biological recognition, block chain and intelligent logistics, push forward the transformation of business and operating modes, and become the major arena for new round of banking competition.

ii. The Company's development strategies

2017 marks the beginning of the Company's new planning period. At present, the Company is drafting a new development program. The general principle of the program is to deeply implement the development concepts of "innovation, coordination, green, open and sharing", persist in steady progress, make a breakthrough in key areas, strive to improve the quality and efficiency of serving the real economy, enhance risk management capability, speed up reform, innovation and business transformation, and enter a new development stage.

iii. Operating plan

In 2017, the Company will implement the requirements of the Eighteenth National Congress of the CPC, the Third, Fourth, Fifth and Sixth Plenary Sessions of the Eighteenth CPC Central Committee and the Central Economic Work Conference, adhere to steady progress, exert to improve the quality and efficiency of serving the real economy, enhance risk management capability, accelerate reform, innovation and business transformation, and ensure regulated, safe and stable operation in the year.

1. Speed up operation transformation and cultivate integrated business and diversified profit models

The Company will quicken the integration of business functions. It will develop autonomous functions, make the best of cooperative functions and enhance diversified financial service capability. It will advance the establishment of consumer finance company, review and optimize the functions of such business lines as corporate banking, retail banking and financial markets, form the resultant force and enhance the one-stop financial service capability. It will enhance the integration of traditional and emerging business, activate premier wealth management system and strengthen the competitiveness of retail business.

The Company will quicken the building of marketing capability of institutions. It will strive to strengthen comprehensive service capability and build an efficient marketing platform. It will advance the construction of marketing mechanism and marketing team, and shift the focus to small and micro enterprises and personal customers. It will strengthen joint marketing of business lines, and enhance the capability of product application and promotion and combination of online and offline sales. It will reinforce outlet input and output comment and increase outlet capacity.

The Company will quicken the development of “second bank” towards platform-based. In light of the ideas of “framework reshaping, platform undertaking, reverse assessment and interconnection”, the Company will deeply study and drive the development of direct-marketing banking, and gradually enhance the functions of marketing and scenario application of e-banking. It will strengthen the integration of the “second bank” with corporate, personal and micro business, and enhance the coordination effect. It will constantly enrich the exclusive products and channels of the “second bank”, and create a differentiated risk control mode.

The Company will accelerate the diversification of profit models. It will deepen the all-round asset and liability management, and gradually achieve a diversified asset structure focusing on traditional credit, financial market and asset management. It will strengthen the coordinated management and multi-level control of funds and deepen classified deposit management. It will optimize asset structure, stabilize interest spread and improve profitability. It will continue to advance refined cost management, and strengthen the capability of attracting low-cost funds by comprehensive services. It will introduce value-oriented comprehensive budget management and enhance oversight of budget implementation.

2. Reinforce financial services to support the supply-side structural reform and real economy revitalization

The Company continued to deepen financial services for such national strategies as coordinated development of the Beijing-Tianjin-Hebei region. It will focus on such national strategies as coordinated development of the Beijing-Tianjin-Hebei region, the “Belt and Road” initiative, construction of the Yangtze River Economic Zone, strengthen coordinated marketing and product innovation and step up overall service capability. It will properly render financial services for environmental control, infrastructure, projects benefiting livelihood and other projects, better the functions of Beijing-Tianjin-Hebei coordination card and Hua Xia ETC card, and expand its market share and influence.

The Company will deeply implement the strategy of “SME Financial Service Provider” and optimize financial services for enterprises. It will strengthen the integration of traditional and emerging business and online and offline products, provide integrated comprehensive services, and help enterprises reduce financing costs and optimize debt structure. It will improve cash management and financing service systems, strengthen quality project reserve and input, and take full advantage of annually reviewed loan, revolving loan and other unique products to solve SMEs’ financing difficulties.

The Company will make great efforts to drive the development of green premier wealth management business. It will strengthen construction of green financial center, expand the cooperation with the World Bank and the French Development Agency, and carry out the Innovative Financing for Air Pollution Control in Jing-Jin-Ji Program fruitfully. It will channel more credit and investment resources to energy saving and emission reduction, new energy, resources utilization and environmental control projects, and increase the proportion of green credits. It will quicken the innovation of products in the field of green finance, and strive to make a breakthrough in such business fields as green bond underwriting and green asset securitization.

The Company will implement a differentiated credit, investment and financing policy of advancing in some areas while retracting in others. It will constantly optimize credit and industrial orientation and structure and deepen differentiated management. It will manage the “capacity cut and de-leverage” customers by “list system”, take quality listed companies as key customers and reinforce investment, financing, advisory and credit services in the capital market. It will expand consumer credits and increase the proportion and contribution of such credits.

The Company will actively push forward the targeted financial poverty alleviation. It will earnestly implement the requirements on financial poverty alleviation, strengthen communication and cooperation with the poverty alleviation departments of local governments, and precisely meet the financial demands of unique industries in impoverished areas, study and employment of poverty-stricken population, key relocation projects for poverty alleviation and key regions. It will step up support for village banks and further improve financial services for “agriculture, rural areas and farmers”.

3. Enhance risk management and control and ensure regulated, safe and smooth operation and healthy development

Comprehensive risk management will be carried out in a deeper way. The Company will continue to perfect comprehensive risk management system and strengthen the consolidated risk management of affiliated institutions. It will improve the functions of risk management system and optimize risk monitoring and assessment mechanism. It will push forward the new capital accord implementation and enhance the capability of identifying, measuring, monitoring and controlling various risks.

The Company will strengthen the full-process credit risk management. It will deepen the coordinated credit management, improve the weaknesses of credit business, and intensify the authenticity and comprehensiveness of credit investigation, accuracy and professionalism of review and approval, timeliness and penetrability of post-lending inspection and standardization and effectiveness of risk handling. It will continue to properly deal with process management and dynamic adjustment and optimize differentiated authorization according to risk degree and risk management capability. It will step up overdue loan recovery, prudently try market-oriented debt-for-equity swap, reasonably carry out debt restructuring and deeply study the value of transferred assets.

The Company will improve the management of liquidity and market risks. It will strengthen liquidity risk study, enhance analysis and judgment capability, develop countermeasures in advance and effectively respond to the liquidity risk brought by “black swan events”. It will strengthen market risk monitoring and limit management of key business, pay particular attention to the challenges arising from changes in RMB exchange rate and foreign exchange policy, liquidity volatility in bond market and other liquidity and interest rate risks.

The Company will strengthen IT innovation and autonomy. It will shift the driving force from technical operation to technical innovation, and improve the process, standardization, professionalism and marketization of IT R&D. It will intensify “internet thinking”, give play to the role of data value application and technology-driven innovation, and push forward continuous innovation in operation, management and business products. It will enhance IT autonomy, speed up the construction, promotion and application of development platform with its own intellectual property rights and built a new-generation financial cloud network platform. It will further IT innovation and autonomy, and improve IT risk management.

The Company will enhance compliance risk management and control. It will deepen the coordination and management of compliance inspection, and realize the full coverage of internal control over institutions, personnel, IT and all businesses. It will intensify accountability for violations and investigate responsibilities according to the nature of problems in time. It will properly handle anti-money laundering management, create and optimize suspicious transaction monitoring models and achieve the centralized and specialized monitoring. It will properly handle case prevention and education and early warning of risks, strictly implement the case prevention accountability system and ensure safe and smooth operation.

iv. Possible risks

Currently, the world economy is undergoing profound adjustment, and international environment remains complicated and volatile. China’s economic operation still has structural contradictions and problems in development approaches, and the banking industry is still facing severe business environment.

First, external risks are continuously accumulating. Contradictions and pressure arising from the real economy are spreading to the banking industry, and the cross-industry and cross-market contagion and volatility of financial risks have become increasingly outstanding, increasing the difficulty to strike a balance between risk prevention and stabilization of growth.

Second, liquidity management difficulties increase. Global asset bubbles lead to internal adjustment pressure, and the influence brought by the volatility of money market and capital market is ignorable, which brings forth higher requirements on banks’ liquidity risk emergency management and handling capability.

Third, asset quality management pressure remains. Domestic economy is in the phase of slow stabilization, transformation and upgrade, bringing about more uncertain and unstable factors. The operation trends of different regions and industries in China are deviating, the potential risks in key fields cannot be overlooked, and banks are still facing challenges in terms of asset quality and operation.

IV. BANKING BUSINESS DATA

i. Main accounting data for the three years prior to the end of the reporting period

(Unit: RMB1 million)

Item	End of 2016	End of 2015	End of 2014
Total assets	2,356,235	2,020,604	1,851,628
Total Liabilities	2,203,262	1,902,216	1,749,529
Owner's equity attributable to equity holders of the listed company	152,184	117,678	101,458
Total deposits	1,368,300	1,351,663	1,303,216
Incl.: Corporate demand deposits	560,322	489,750	381,336
Corporate time deposits	404,577	414,827	445,784
Savings demand deposits	114,459	110,917	91,585
Savings time deposits	125,074	130,830	133,008
Other deposits	163,868	205,339	251,503
Total loans	1,216,654	1,069,172	939,989
Incl.: Pass loans	1,196,306	1,052,875	929,744
NPLs	20,348	16,297	10,245
Placements from banks and other financial institutions	73,130	64,141	42,638
Allowance for impairment losses on loans	32,299	27,235	23,884

ii. Capital composition, leverage ratio and changes thereof

1. Capital composition and its changes

(Unit: RMB1 million)

Item	31 December 2016		31 December 2015		31 December 2014	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
1. Total net capital	178,991	173,565	144,336	139,832	132,441	128,585
1.1 Core tier 1 capital	132,857	131,351	118,250	117,176	101,988	101,257
1.2 Core tier 1 capital deductions	1	2,630	2	2,630	1	2,630
1.3 Net core tier 1 capital	132,856	128,721	118,248	114,546	101,987	98,627
1.4 Other tier 1 capital	20,044	19,978	39	-	20	-
1.5 Other tier 1 capital deductions	0	0	-	-	-	-
1.6 Net tier 1 capital	152,900	148,699	118,287	114,546	102,007	98,627
1.7 Tier 2 capital	26,091	24,866	26,049	25,286	30,434	29,958
1.8 Tier 2 capital deductions	0	0	-	-	-	-
2. Credit risk weighted assets	1,452,825	1,408,869	1,225,885	1,191,486	1,107,853	1,081,929
3. Market risk weighted assets	12,440	12,440	5,364	5,364	6,018	6,018
4. Operational risk weighted assets	110,486	108,572	99,142	97,935	87,230	86,587
5. Total risk weighted assets	1,575,751	1,529,881	1,330,391	1,294,785	1,201,101	1,174,534
6. Core tier 1 CAR (%)	8.43	8.41	8.89	8.85	8.49	8.40
7. Tier 1 CAR (%)	9.70	9.72	8.89	8.85	8.49	8.40
8. CAR (%)	11.36	11.34	10.85	10.80	11.03	10.95
9. Capital instruments enjoying preferential policy during the transitional period: According to relevant provisions of the <i>Regulation Governing Capital of Commercial Banks (Provisional)</i> , ineligible tier 2 capital instruments issued by commercial banks prior to 12 September 2010 are entitled to the preferential policy. During the reporting period, the includible amount of the Company's ineligible tier 2 capital instruments was RMB4.0 billion.						

Notes:

1. Calculated according to the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012).
2. Net core tier 1 capital = Core tier 1 capital – core tier 1 capital deductions.
3. Net tier 1 capital = Net core tier 1 capital + other tier 1 capital – other tier 1 capital deductions.
4. Total net capital = Net tier 1 capital + tier 2 capital – tier 2 capital deductions.

2. Leverage ratio and its changes at the end of the reporting period

(Unit: RMB1 million)

Item	31 December 2016	30 September 2016	30 June 2016	31 March 2016
Net tier-1 capital	148,699	144,850	139,984	138,778
Adjusted on and off-balance sheet asset balance	2,649,577	2,591,314	2,608,434	2,456,698
Leverage ratio (%)	5.61	5.59	5.37	5.65

Note: The above are unconsolidated data calculated according to the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC No. 1 Decree in 2015).

3. According to the *CBRC Regulatory Requirements on the Disclosure of Capital Composition Information by Commercial Banks* (Y.J.F. [2013] No. 33) and the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC No. 1 Decree in 2015), please refer to the special column of investor relations at www.hxb.com.cn, the Company's official website, for the details on capital composition, major characteristics of capital instruments and leverage ratio of the Group.

iii. Liquidity coverage ratio

(Unit: RMB1 million)

Item	31 December 2016
Stock of high-quality liquid assets	161,936
Net cash outflows over a 30-day time period	187,487
Liquidity coverage ratio (%)	86.37

Note: The above are consolidated data calculated according to the *Notice of CBRC on 2016 Offsite Regulatory Statements* (Y.J.F. [2015] No. 51) and the *Liquidity Risk Management Measures of Commercial Banks (Trial)* (CBRC No. 9 Decree in 2015).

iv. Main financial indicators for the three years prior to the end of the reporting period

Major indicator (%)		Standard value	2016	2015	2014
Return on assets			0.90	0.98	1.02
Return on capital			14.56	17.19	19.16
NPL ratio			1.67	1.52	1.09
Allowance-to-NPL ratio			158.73	167.12	233.13
Allowance-to-loan ratio			2.65	2.55	2.54
Cost-to-income ratio			34.50	34.78	37.37
Loan-to-deposit ratio	RMB		81.99	75.26	67.76
	RMB equivalent		65.18	76.53	97.90
	RMB and foreign currency		81.65	75.29	68.52
Asset liquidity Percentage	RMB	≥25%	31.45	39.14	46.75
	RMB equivalent	≥25%	80.92	83.27	70.50
	RMB and foreign currency	≥25%	31.59	40.14	46.89
Loan concentration ratio of the largest single borrower		≤10%	3.47	4.46	4.68
Loan concentration ratio of the ten largest borrowers		≤50%	19.51	18.32	18.47

Notes:

- Percentage of loans to single largest borrower = Total loans to the largest borrower/total capital, net × 100%
Percentage of loans to top 10 borrowers = Total loans to top 10 borrowers/total capital, net × 100%
- Loan-to-deposit ratio, asset liquidity ratio, percentage of loans to single largest borrower and percentage of loans to top 10 borrowers were calculated according to the regulatory approach.

Migration ratios

Item (%)	2016	2015	2014
Pass loan migration ratio	4.75	5.65	2.82
Special-mention loan migration ratio	20.98	34.15	35.75
Substandard loan migration ratio	65.78	94.86	96.74
Doubtful loan migration ratio	13.53	31.13	26.75

Note: Migration ratios were calculated according to relevant rules of CBRC. Pass loan migration ratio = Downward migrating amount of pass loans at the beginning of the period/(balance of pass loans at the beginning of the period – decreased amount of pass loans during the period) × 100%; special-mention loan migration ratio = Downward migrating amount of special-mention loans at the beginning of the period/(balance of special-mention loans at the beginning of the period – decreased amount of special-mention loans during the period) × 100%; sub-standard loan migration ratio = Downward migrating amount of sub-standard loans at the beginning of the period/(balance of sub-standard loans at the beginning of the period – decreased amount of sub-standard loans during the period) × 100%; and doubtful loan migration ratio = Downward migrating amount of doubtful loans at the beginning of the period/(balance of doubtful loans at the beginning of the period – decreased amount of doubtful loans during the period) × 100%.

v. Interest-generating assets, interest-bearing liabilities and average interest rates

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Interest-generating assets:			
Loans and advances	1,117,128	59,990	5.37
Balances with central banks	217,538	3,318	1.53
Peer assets	204,952	5,508	2.69
Bond investment	486,000	19,426	4.00
Total interest-generating assets	2,025,618	88,242	4.36
Interest-bearing liabilities:			
Due to customers	1,335,882	22,519	1.69
Due to central banks	57,432	1,726	3.01
Peer liabilities	313,122	8,914	2.85
Debt obligations payable	188,016	6,094	3.24
Total interest-bearing liabilities	1,894,452	39,253	2.07

vi. Hierarchical management and number and regional distribution of institutions

1. Overview of hierarchical management

The Company focuses on economically central cities while radiates over the whole country. It conducts the institution planning and setup, routine operation and internal management under the three-level organizational management system which consists of the Head Office, branches and sub-branches.

As at the end of the reporting period, the Company set up 40 tier-1 branches, 53 tier-2 branches, nine non-local branches and 886 outlets (including 181 community and micro and small-sized sub-branches) in 96 Chinese cities at prefecture level and above. The reporting period saw two new tier-1 branches in Harbin and Guiyang, eight new tier-2 branches in Jinzhou, Huanggang, Jiangmen, Ji'an and Nansha Pilot FTZ in Guangdong, Fuzhou Pilot FTZ in Fujian, Wuhu and Jinhua, and 97 new outlets.

2. Branches

Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Head Office	22 Jianguomennei Street, Dongcheng District, Beijing		5918	1,199,360
Beijing Branch	11 Financial Street, Xicheng District, Beijing	73	2270	327,680
Nanjing Branch	81 Zhongshan Road, Nanjing	53	1678	160,329
Hangzhou Branch	73 Qingchun Road, Hangzhou	47	2453	121,512
Shanghai Branch	256 Pudong South Road, Shanghai	30	892	122,667
Ji'nan Branch	138 Weier Road, Ji'nan	49	1778	99,160
Kunming Branch	98 Weiyuan Road, Kunming	28	1056	96,082
Shenzhen Branch	Nanguangjiejia Mansion, 3037 Shennan Middle Road, Futian District, Shenzhen	37	1371	186,800
Shenyang Branch	51 Qingnian Street, Shenhe District, Shenyang	27	1063	31,389
Guangzhou Branch	Nanyue Mansion, 13 Huaxia Road, Tianhe District, Guangzhou	45	1717	128,345
Wuhan Branch	Huayin Mansion, 786 Minzhu Road, Wuchang District, Wuhan	49	1524	83,693
Chongqing Branch	27 Jiangbeichengxi Street, Jiangbei District, Chongqing	29	800	85,441
Chengdu Branch	No. 2 Building, Jinjiang Zhichun, 229 Yong'an Road, Jinjiang District, Chengdu City	29	1085	62,531
Xi'an Branch	111 Chang'an North Road, Xi'an	20	789	41,239
Urumqi Branch	15 Dongfeng Road, Urumqi	12	450	20,913
Dalian Branch	25 Tongxing Street, Zhongshan District, Dalian	20	716	43,841
Qingdao Branch	5 Donghai West Road, Shinan District, Qingdao	31	948	66,714
Taiyuan Branch	113 Yingze Street, Taiyuan	27	1159	65,123
Wenzhou Branch	Shenli Mansion, Chezhan Avenue, Wenzhou	18	705	23,919
Fuzhou Branch	Huaxia Mansion, 1 Gutian Zhilu, Gulou District, Fuzhou	20	614	15,559
Hohhot Branch	Capital Plaza, 1 Zhongshan West Road, Huimin District, Hohhot	16	889	34,169
Tianjin Branch	Tower E, Huanbohai Development Center, Zeng 9 Binshui Road, Hexi District, Tianjin	24	763	36,383
Shijiazhuang Branch	48 Zhongshan West Road, Shijiazhuang	48	1629	60,468
Ningbo Branch	366 Heyuan Road, Jiangdong District, Ningbo	12	499	19,517

Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Shaoxing Branch	260 Yan'an Road, Shaoxing	9	414	21,869
Nanning Branch	Tower B, Huarun Mansion, 136-2 Minzu Avenue, Nanning	13	550	25,072
Changzhou Branch	162 Heping North Road, Changzhou	16	442	26,707
Suzhou Branch	188 Xinghai Street, Suzhou Industrial Park, Suzhou	20	714	68,763
Wuxi Branch	Changxing International Financial Plaza, Financial Street I, Taihu New Town, Wuxi	20	609	48,122
Changsha Branch	Huameiou International Mansion, 389 Wuyi Road, Changsha	8	442	25,015
Hefei Branch	Building C, Wealth Plaza, 278 Suixi Road, Hefei	12	423	25,851
Xiamen Branch	Jianshe Keji Mansion, 62 Hubin South Road, Siming District, Xiamen	5	319	14,682
Changchun Branch	4888 Renmin Street, Nanguan District, Changchun	9	469	16,796
Zhengzhou Branch	29 Business Outer Ring Road, Zhengdong New District, Zhengzhou	9	595	43,101
Nanchang Branch	10 Binjiang Shoufu, Zhongshan West Road, Xihu District, Nanchang	13	453	32,044
Shanghai FTZ Branch	2 Taizhong South Road, China (Shanghai) Pilot Free Trade Zone	1	38	1,055
Tianjin FTZ Branch	Railway Construction Building, 31 Central Ring West Road, Tianjin Free Trade Zone (Airport Economic Zone)	1	17	1,377
Yinchuan Branch	168 Xinchang East Road, Jinfeng District, Yinchuan	3	201	5,563
Haikou Branch	61 Guoxing Avenue, Meilan District, Haikou	1	169	5,683
Harbin Branch	Tower A, Headquarters of Huizhi Finance Enterprise, Intersection of Qunli No. 5 Avenue and Lijiang Road, Daoli District, Harbin	1	311	429
Guiyang Branch	55 Changling North Road, Guansanhu District, Guiyang	1	161	2,704
Regional summarization adjustment				-1,186,226
Total		886	39,093	2,311,441

Note: Headcount of the Head Office includes the staff of Credit Card Center.

3. Representative Office outside the Mainland

Institution name	Office address	Number of branches	Headcount
Hong Kong Representative Office	F/58, Two International Finance Center, 8 Finance St., Central Hong Kong	1	5

vii. Credit asset quality during the reporting period

1. Quality of credit assets

(Unit: RMB1 million)

Five-tier classification	Amount	Percentage (%)	Increase/decrease compared with the end of previous year (%)
Pass loans	1,145,151	94.13	13.62
Special-mention loans	51,155	4.20	13.65
Sub-standard loans	7,761	0.64	26.48
Doubtful loans	9,215	0.75	39.54
Loss loans	3,372	0.28	-5.22
Total	1,216,654	100.00	13.79

At the end of the reporting period, the Group's NPL balance was RMB20,348 million, an increase of RMB4,051 million over the end of previous year; NPL ratio increased by 0.15 percentage points over the end of previous year to 1.67%; the balance of special-mention loans was RMB51,155 million, an increase of RMB6,145 million over the end of previous year, with a ratio of 4.20%, down 0.01 percentage points compared with the end of previous year.

During the reporting period, economic growth kept slowing down, and enterprises generally faced huge operation pressure. Industrial, regional, mutual guarantee chain and other risks continued to spread, and credit risk exposure was evident. It will take time to mitigate risks and handle problematic loans. As a result, the Group saw a rise in the balance of both NPLs and special mention loans during the reporting period. In response to the risk situations and changes, the Group took active steps to constantly optimize credit business structure, strengthen risk monitoring and early warning, intensify prevention and control of systematic risks in key business, industries and fields, continuously enhance disposal of problematic loans and make asset risks controllable as a whole.

2. Restructured loans and overdue loans

(Unit: RMB1 million)

Category	Balance at the beginning of the period	Balance at the end of the period	Percentage (%)
Restructured loans	181	189	0.02
Overdue loans	42,348	57,375	4.72

Note: Overdue loans include the loans with overdue principal or interest. If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

At the end of the reporting period, the book balance of the Group's restructured loans amounted to RMB189 million, an increase of RMB8 million over the end of previous year.

Due to economic downturn, structural adjustment, weak demand, and prolongation of fund recovery period of real economy and other complicated factors, the balance and percentage of the Group's overdue loans at the end of the reporting period went up. Overdue loan balance increased by RMB15,027 million compared with the end of previous year to RMB57,375 million, accounting for 4.72% of total loans, 0.76 percentage points higher than the last year end.

viii. Charge and write-off of allowance for impairment losses on loans

(Unit: RMB1 million)

Item	End of 2016
Balance at the beginning of the year	27,235
Charge for the year	13,411
Recovery of loans and advances that had been written off	142
Less: Transfer-out caused by increase of discounted value	687
Less: Write-offs in the year	7,802
Balance at the end of the year	32,299

Methods used in charge of allowance for impairment losses on loans:

The Company assessed the impairment losses on all loans on the balance sheet date based on two methods: individual assessment and collective assessment.

As to the single loan with a large amount, the Company applied the individual assessment method to test the impairment. If an objective evidence could indicate the loan had impairment loss, the loss amount shall be measured at the difference between the book value of the loan and the discounted value of estimated future cash flows and allowance for impairment loss on loans would be set aside and recognized in the loss of the period; the solvency of the borrower, reasonable value of the collateral, compensatory ability of the guarantor and other factors shall be fully considered in the impairment testing.

The single loan with a small amount and unimpaired loan tested by the individual assessment shall be included in the loan portfolio with similar characteristics. Their impairment losses shall be assessed collectively, and corresponding allowance for the impairment losses shall be recognized in the profit or loss.

ix. Interest receivables and charge of allowance for bad debts

(Unit: RMB1 million)

Item	Balance at the beginning of the period	Increase during the period	Recovery for the period	Balance at the end of the period
Interest receivable	10,603	1,503,911	1,500,707	13,807

Charge of allowance for bad debts of interest receivables:

During the reporting period, as the Group inspected the interest receivables and there was no impairment, the allowance for bad debts was not set aside.

Writing-off procedures and policy of bad debts:

As for the items in line with the conditions of writing-off, the Company adopted the procedures of declaration by the branches and approval by the Head Office: relevant departments of branches organized the declaration and review for the bad debts writing-off, submitted to the president panel of branches for review and approval and then reported it to the Head Office; after being reviewed by relevant departments of the Head Office and approved by the Asset Risk Disposal Committee, the items were written off.

In the process of bad debts writing-off, the Company abided by the principle of strict writing-off conditions, providing definite evidences, seriously investigating responsibilities, reporting, reviewing and approving one by one and level by level, keeping confidential and “maintaining filing after writing-off”. After the bad debts were written off, the management responsibility was strictly carried out and diversified methods were adopted in the continuing recourse.

x. Foreclosed assets

(Unit: RMB1 million)

Category	Amount at the end of the period		Amount at the beginning of the period	
	Amount	Allowance for impairment losses	Amount	Allowance for impairment losses
Real estate	1,450	396	800	218
Others	62	24	114	60
Total	1,512	420	914	278

At the end of the reporting period, the book balance of the Group's foreclosed assets was RMB1,512 million, of which, real estate's amounted to RMB1,450 million, accounting for 95.90% of the total; and others aggregated to RMB62 million, accounting for 4.10% of the total.

xi. Financial bonds held

(Unit: RMB1 million)

Category	Amount
Financial bonds of policy banks	68,158
Financial bonds of commercial banks	35,225
Subordinated bonds of commercial banks	430
Subordinated bonds of insurance companies	1,500
Hybrid capital bonds of commercial banks	400
Tier 2 capital bonds of commercial banks	100
Total	105,813

Of which, material financial bonds:

(Unit: RMB1 million)

Category	Par value	Annual interest rate (%)	Maturity date	Allowance for impairment losses (in original currency)
SPD Bank Financial Bonds Issue 1 of 2012	4,000	4.20	28 February 2017	-
China Guangfa Bank Financial Bonds Issue 2 of 2016	3,000	3.52	25 May 2021	-
CMBC Financial Bonds Issue 1 of 2016	3,000	2.95	28 October 2019	-
China Guangfa Bank Financial Bonds Issue 1 of 2016	2,000	3.32	24 February 2021	-
SPD Bank Green Financial Bonds Issue 1 of 2016	2,000	2.95	29 January 2019	-
Industrial Bank Green Financial Bonds Issue 1 of 2016	2,000	2.95	29 January 2019	-
BOB Financial Bonds Issue 1 of 2016 (Category 1)	1,810	3.10	18 March 2019	-
Industrial Bank Green Financial Bonds Issue 3 of 2016	1,800	3.20	17 November 2021	-
BOCOM Green Financial Bonds of 2016 (Category 2)	1,750	3.25	22 November 2021	-
CDB Financial Bonds Issue 15 of 2016	1,750	2.65	20 October 2019	-

xii. Development and profit/loss of wealth management business, asset securitization, custody, trust and premier wealth management during the reporting period

1. Development and profit/loss of wealth management business during the reporting period

During the reporting period, all the matured wealth management products of the Company have been paid as scheduled, generating an investment return of RMB25,275 million, a year-on-year increase of RMB3,259 million or 14.80%, and wealth management fee-based income of RMB5.84 billion, up RMB409 million or 7.53%.

2. Development and profit/loss of asset securitization during the reporting period

During the reporting period, the Company actively responded to the call of the country and regulators for speeding up asset securitization, rehabilitation of non-performing assets, adjustment of structure and support for the real economy development. It made efforts to create “Long Yuan” and “Hua Yin” series brands, with a total issuance amount of RMB49,058 million. By virtue of the excellent performance in asset securitization, the Company was named the “Excellent ABS Sponsor” of outstanding member in China’s bond market by China Government Securities Depository Trust & Clearing Co., Ltd. in 2016.

3. Development and profit/loss of custody business during the reporting period

During the reporting period, assets under the Company’s custody scaled up substantially. The Company had 819 products under custody, covering securities investment funds, securities dealers’ asset management schemes, banks’ wealth management and asset-backed plans, with a total amount of RMB2,173,258 million, a year-on-year increase of 66.34%. Due to fierce market competition, industrial custody fees dropped sharply. The Company realized a custody fee income of RMB888 million, down 14.20% compared with the previous year.

4. Development and profit/loss of trust business during the reporting period

Not applicable.

5. Development and profit/loss of premier wealth management business during the reporting period

During the reporting period, the Company transformed premier wealth management business aiming at refined management, with focus on product and service innovation and improvement of “1+N” VIP value-added service system. It built the head office to head office partnership with studying abroad, travel, immigration, tax rebate and currency exchange institutions. The Company issued “Long Xing Wu Zhou” debit card with the financial theme of going abroad, with the five major characteristics of “integration, preference, convenience, privilege and harmonization”. The premier wealth management business developed sustainably and soundly through multi-pronged measures, including constantly enriching product lines, strengthening marketing, perfecting channel, offering special and exclusive wealth management products on holidays, improving professionalism of finance managers and building “dual entry” system to enhance compliant sales.

At the end of the reporting period, the Company had a total of 17 premier wealth management centers, whose service positioning and objective management have been clarified. It gradually advanced the construction of premier wealth management centers with the functions of high-end customer services and operation and management, reinforced the building of professional premier wealth management team and further drive the development of premier wealth management business.

xiii. Derivative financial instruments held

(Unit: RMB1 million)

Category	Contractual/nominal amount	Fair value	
		Assets	Liabilities
Foreign exchange forwards	14,437	30	134
Foreign exchange swaps	498,404	758	944
Interest rate swaps	12,500	15	15
Total		803	1,093

xiv. Off-balance-sheet items that will have material impact on financial position and operating results

(Unit: RMB1 million)

Item	Balance at the end of the year	Balance at the beginning of the year
Credit commitments	475,998	453,073
Of which:		
Irrevocable loan commitments	5,269	19,008
Bank acceptance drafts	273,235	315,187
Letters of guarantee issued	20,623	16,091
Letters of credit issued	73,508	69,991
Lease commitments	7,272	6,628
Capital commitments	188	412

Note: Credit committee data exclude unused credit card limits. Lease commitment means operating lease commitment.

The above-mentioned off-balance-sheet items might have impact on the Group's financial position and operating results, which depends on whether the related matters will occur in the future. Under certain conditions in the future, they may be converted to the actual obligation of the Group in accordance with the recognition principle of contingencies.

xv. Risks and risk management

During the reporting period, in response to the severe risk situation, the Company firmly improved the organizational structure of comprehensive risk management, actively coordinated the comprehensive risk management, improved risk management policy and rules, reinforced risk management staffing and enhanced the risk assessment mechanism. It carried out specialized management of single risks, prevented various risks centering on asset quality management and business restructuring, and achieved sustained and healthy development of various business.

1. Credit risk management

(1) Business activities incurring credit risk. Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances, placements with banks and other financial institutions, inter-bank lending, bond investments, bill acceptance, L/C, and L/G.

(2) Organizational framework and division of responsibilities of credit risk management. The Company has established a mutually restricted credit risk management organizational framework with reasonable work division and definite responsibilities: the Related Party Transactions Control Committee and the Risk & Compliance Management Committee are established under the Board of Directors to be responsible for the formulation of related party transactions management and bank-wide risk management strategies respectively; the Credit, Investment and Financing Policy Committee of the Head Office is responsible for the formulation, organization and implementation of material credit risk management policies; risk management and internal control committees of the Head Office and branches review comprehensive risk management matters, arrange and coordinate risk management and internal control work; credit risk management departments of the Head Office and branches shall be responsible for credit risk management of the whole bank and local branches; according to the authorization system and business risk profile, the Company conducts professional approval of important industries and businesses and continues to expand professional approval scope; the Company strengthens functions of each link of credit business, and sets up mutually restricted positions with definite responsibilities and smooth operation.

(3) Credit risk management and control policy during the reporting period. During the reporting period, the Company actively responded to the pressure of economic downturn, served the effective demands of real economy and guided the adjustment and optimization of credit structure. It improved the credit risk management system covering various services, and strictly controlled concentration risk. It constantly improved the quality of “Three Inspections” of loans, intensified continuous monitoring and dynamic management of loan risks, standardized due diligence procedures, specified identification standards and enhanced accountability. It strengthened the review and rehabilitation of existing customers and clear-up of problematic loans, developed improvement and exit plans for each account, and strictly prevented and controlled risks in key fields. It stepped up the recovery and handling of problematic loans, controlled the risk of asset quality deterioration, and maintained relatively stable quality of credit assets.

(4) Credit asset risk classification procedures and methods. Pursuant to the requirements of the CBRC *Guidelines on Loan Risk Classification*, the Company classified credit asset risks in consideration of such non-financial factors as the solvency, willingness to repay, repayment records and guarantee condition of the borrowers and their internal management, according to the step-by-step identification procedures: preliminary classification by the customer manager, review by the customer manager in charge, and then review, recheck and identification by the regional credit risk management personnel.

(5) Credit risk profile

Credit exposures. At the end of the reporting period, without regard to the available collateral or other credit enhancements, total on and off-balance-sheet credit exposures of the Group amounted to RMB2,809,019 million, including on-balance-sheet business exposure of RMB2,333,021 million, 83.05% of total, and off-balance-sheet business exposure of RMB475,998 million, 16.95% of total.

Risk concentration. At the end of the reporting period, the balance of single largest legal-person customer loans of the Group was RMB6.02 billion, accounting for 3.47% of net capital; the balance of top 10 single legal-person customer loans was RMB33,868 million, accounting for 19.51% of net capital.

For details of loan distribution by industry and geographical area, please refer to the “Loan Extension” of this Report.

Non-performing loan distribution by industry and geographical area. At the end of the reporting period, wholesale & retail, manufacturing and mining pooled most of the Group’s non-performing loans, with NPL ratios of 4.53%, 3.55% and 2.95% respectively, up 0.52, 0.45 and 1.90 percentage points over the end of the previous year. In terms of geographical distribution, non-performing loans were concentrated in Southern & Central China and Eastern China with a NPL ratio of 1.95% in Southern & Central China, up 0.07 percentage points over the end of the previous year, and 1.71% in Eastern China, the same as the end of the previous year. The Group’s NPL ratio in Northern & Northeastern China and Western China was below the average level of the Group.

(6) Credit risk management measures in 2017. It is forecast that economic and financial situations will remain severe and complicated at home and abroad in 2017, economic downturn pressure will be still huge, various contradictions and pressure in the real economy will continue to spread to the banking industry, and credit risk prevention tasks will be still tough. Therefore, the Company will take active steps to serve the effective demands in the real economy, and constantly push forward the adjustment and optimization of credit business structure. It will reinforce the full-process credit risk management and control, clarify the responsibilities of each risk control subject, and improve the quality of “Three Inspections” of quality. It will tighten credit due diligence and accountability. It will highlight the asset quality management and control, improve assessment incentive mechanism, continuously strengthen prevention and control of industrial systematic risks, and strictly control the escalation of credit risk. It will enhance specialized recovery supervision and assistance, pay close attention to key regions and key projects, actively innovate in disposal means, broaden disposal channels and expedite disposal of problematic loans.

2. Explanation on liquidity risk status

Liquidity risk is the potential risk that commercial banks will be unable to raise funds at a reasonable cost to fund the asset growth or to settle liabilities as they fall due.

In 2016, the central bank comprehensively employed various monetary policies and tools to maintain the steadiness of liquidity in the banking sector. The Company highly recognized liquidity risk management, continued to improve liquidity risk management measures and gave due consideration to both profitability and liquidity of asset and liability arrangements.. Based on the analysis of macroeconomic and market trends, the Company determined a balanced liquidity risk appetite, incorporated the whole assets and liabilities into the uniform liquidity management framework, and controlled the overall maturity mismatch. It increased active debt financing, replenished long and medium-term stable funds by financial bonds, preference shares and interbank certificates of deposits, improved the stability of liabilities and furthered the effective growth of assets. It made proper judgment on the market liquidity change trend, made prior arrangements for liquidity management, organized stable funds in advance and carried out stress testing and emergency drilling. During the reporting period, the Company’s liquidity remained stable as a whole without any payment difficulties, default or deferred payment.

In 2017, the Company will secure the stability of liquidity through maintaining a reasonable reserve level, continuing to improve the liquidity risk management mechanism, ameliorating policies and regulations, and bettering day-to-day management means.

3. Explanation on market risk status

(1) Market risk management. The Company further improved market risk management mechanism, promoted the construction of market risk and banking book interest rate risk management system, strengthened market risk monitoring, analysis and study, intensified market risk limit management, constantly advanced banking book interest rate risk management and kept stepping up market risk management capability. In 2016, the Company abided by market risk appetite well, with market risk controllable overall.

(2) Interest risk status. In 2016, PBC continued to implement the prudent monetary policy, cut reserve requirement ratios once in the year by 0.5 percentage points. It adjusted the liquidity in the money market by open market operations, medium-term lending facility (MLF) and other instruments, driving up interest rates in the market. The Company strengthened dynamic monitoring and analysis of interest rate risk, and constantly improved the capability of measuring and analyzing interest rate risks arising from banking and trading books. At the end of 2016, the re-pricing maturity of RMB and USD interest rates of the Company was distributed reasonably, and interest rate risk borne was kept within a reasonable range.

(3) Exchange risk status. Major currency and bulk commodity prices in international market remained volatile in 2016. RMB continued to depreciate against USD, falling by 6.39% in 2016. Brexit, presidential election in the U.S., the Fed's interest rate hike and other external events occurred frequently. The Company kept a close eye on RMB exchange rate movement and changes in the international financial market, continued to monitor exchange rate risk, and carried out management of limits relating to foreign exchange business. At the end of the reporting period, the Company's foreign exchange risk exposure was relatively small and the exchange risk controllable.

In 2017, it is expected that fiscal policy will be more proactive and effective, and monetary policy will remain prudent and neutral. The Company will actively respond to the complicated market environment, strengthen market situation analysis and prejudgment, and continuously improve management of market risk and banking book interest rate risk.

4. Explanation on operational risk status

During the reporting period, the Company continued to identify, assess, monitor and report on operational risk, and propelled the implementation of achievements in operational risk compliance projects under the new capital accord. Operational risk management was sound in general.

The Company enhanced operational risk identification to prevent and control operational risk at source. It organized each major business line to streamline procedures and conduct self-assessment of operational risk and control. It improved key risk indicator (KRI) monitoring mechanism, built KRI system at bank, business line and branch levels, specified indicator threshold value range and strengthened risk early warning. The Company enhanced the collection and analysis of operational risk events and loss data. It issued major operational risks of each business line and prevention and control measures, and highlighted the prevention and control of key business, links and operational risks. It organized training on operational risk management system, prepared operational risk management manual, provided special guidance for newly established branches, improved assessment and evaluation standards, and enhanced operational risk management personnel's awareness and capability of performance of duties.

The Company specially enhanced continuous drill management, with focus on the drilling of takeover of regular standby operational site, information system and disaster recovery system, which facilitated its continuous improvement of business continuity emergency management mechanism and capability. It checked flood and other natural disaster risks in such operational sites as premises, operation center, detached self-service bank, computer room and warehouse, eliminated potential risks in time, and improved its business continuity when natural disaster emergencies occur. It pushed forward the construction of regular IT risk assessment system, and conducted special risk assessment of data centers (three centers in two cities) so as to ensure IT business continuity.

In 2017, the Company will continue to improve operational risk management system, give prominence to the prevention and control of operational risk in the areas vulnerable to such risk, and keep improving operational risk management.

5. Explanation on status of other risks

Other risks faced by the Company mainly consist of internal control & compliance risk, IT risk, reputational risk and country risk.

In respect of internal control & compliance risk, the Company continuously conducted internal control & compliance risk management according to the requirements of the *Guidelines on Compliance Risk Management of Commercial Banks* and the *Guidelines on Internal Control of Commercial Banks*. First, the Company strengthened system management, internalized external regulations, reviewed the compliance of business rules and new products and services, and kept a firm grip on system sources to effectively prevent compliance risk. Second, the Company reinforced spot check and supervision of case prevention, conducted case risk inspection, prevention of illegal capital raising and special self-inspection of unauthorized sales, intensified case risk warning, publicity and education and constantly kept high vigilant against risk cases. Third, the Company improved anti-money laundering (AML) mechanism, amended AML management measures, and drafted implementation rules on freezing of assets involved in terrorist activities. It initiated the independent setup of a suspicious transaction monitoring model and an AML platform, and stepped up IT support for AML management. Fourth, according to regulatory requirements, the Company conducted a self-inspection of the review of “Two Strengthens, Two Curbs”, constantly facilitated rectification of and accountability for the problems found in internal and external inspections, and advanced the management of key error repetition projects. Fifth, it reinforced management of compliance performance, further improved internal control & compliance management assessment system and indicators and guided grassroots institutions to operate normatively in accordance with laws and regulations.

In respect of IT risk, the Company fully implemented the policies, laws and regulations of China’s competent and regulatory authorities, and continuously improved IT risk management by optimizing IT rules, strengthening and improving IT risk prevention and control system. The data center disaster recovery system of “three centers in two cities” ran well, and upgraded production system hardware on 23 September 2016 without stopping application services for the first time, further improving business continuity capacity. The Company established an omni-faceted system active-active platform within the same data center based on dual buildings, realized structural optimization of external network platform, and constantly enhanced the soundness of network and information system. It build an intelligent and omni-directional information system monitoring platform and a big data failure forecast platform, fully advanced the ISO20000 standardization, and kept ameliorating production and operation management system. It reinforced the application of secure and controllable technology, initiated the construction of an integrated information security risk perception platform, and further enhanced IT risk prevention and control capability.

In respect of reputational risk, the Company actively managed reputational risk, continued to improve reputational risk management system and promote reputational risk front management, and constantly strengthened identification, assessment, monitoring, control and mitigation of reputational risk. It provided training on reputational risk to all employees aimed at raising their awareness and capability. It also continuously reinforced the setup of public opinion work mechanism and made greater efforts to improve the ability of responding to negative public opinions and guiding public opinions, thus effectively safeguarding the good image and reputation.

In respect of country risk, in 2016, as global trade growth continued slowing down, and international economic and political situations became complicated, the Company closely monitored the country risk of related countries and regions, saw a decline in business exposure relating to country risk, and conducted country risk rating and reserve fund provisioning. The country risk was controllable overall.

xvi. Innovative products

In line with market changes and customers' demands, the Company constantly strengthened product R&D and business innovation, and developed and optimized a total of 41 products for various customers during the reporting period. It enhanced the capability of financing services for customers, and developed such investment and financing products as M&A financing, peer investment and group customer bill pool. It strengthened the capability of cash management services for customers, and launched corporate cash management toolkit (select version) tailored to large and medium customers, based on the cash management toolkit (popularized version) that serves small and micro enterprises. It constantly strengthening the capability of wealth management on behalf of customers, and developed five wealth management products, including open-ended wealth management products without a fixed term and strategic principal-guaranteed wealth management. It continued to enhance trade finance service capability and launched five international business products, including Beijing-Tianjin-Hebei Nonlocal Presentation Express, electronic presentation of documents and export renegotiation. In respect of serving small and micro enterprises, the Company highlighted two features, i.e. "FinTech" and "internet plus", and developed five products including technical finance series products and bank-tax link. In respect of personal customer services, the going abroad financial brand "Long Xing Wu Zhou" has been recognized by the market and customers, and the Company continued to facilitate the construction of "Smart Community" ecosystem, and developed nine products and business modes, including "Life e-Loan-Personal Cloud Loan" and smart community ecosystem. E-banking products were continuously updated and version 4.0 mobile banking was successfully rolled out.

SECTION V SIGNIFICANT EVENTS

I. PROFIT DISTRIBUTION PLAN/PLAN ON STRENGTHENING OF CAPITAL BASE WITH CAPITAL RESERVE

i. Formulation, implementation or adjustment of cash dividend policy

According to the *Articles of Association of Hua Xia Bank Co., Limited*, the Company can distribute dividends in the form of cash or share or combination of both, and shall maintain the continuity and stability of profit distribution policy. The Company will give priority to the profit distribution in cash. Total profit distributed in the form of cash in the last three years was not less than 30% of the annual average distributable profit realized during the period.

The profit distribution plan for 2015 was reviewed and approved at the Annual General Meeting for 2015 and took effect on 8 July 2016. The distribution plan accorded with the Articles of Association, the distribution standard and proportion were definite and clear, and relevant decision-making procedures and mechanism were complete. Independent directors performed their duties and made their due contributions. Minority shareholders were provided with opportunities to fully express their opinions and appeals, and their legal rights and interests were sufficiently safeguarded. Total profit distributed in the form of cash in the last three years was not less than 30% of the annual average distributable profit realized during the period.

ii. Profit distribution plan and plan on strengthening of capital base with capital reserve in the recent three years (including the reporting period)

(Unit: RMB1 million)

Distribution year	Bonus shares distributed per ten shares	Dividends distributed per ten shares (RMB, before tax)	Shares recapitalized per ten shares	Cash dividend (before tax)	Net profit of the year	Percentage (%)
2016	–	1.81	2	1,934	19,323	10.01
2015	–	3.63	–	3,879	18,581	20.88
2014	–	4.35	2	3,874	17,795	21.77

According to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J.[2012] No. 20) released by the Ministry of Finance and the *Articles of Association of Hua Xia Bank Co., Limited*, the Company made statutory surplus reserve based on the net profit audited by the accounting firm, set aside general reserve from net profit at the end of the year to cover unidentified possible losses, and distributed ordinary share dividends to shareholders based on the distributable profit audited by the accounting firm. The following are the 2016 profit distribution plan and the plan for conversion of capital reserve to share capital of the parent company:

1. RMB1,932,263,340.29 or 10% of the net profit of 2016 (RMB19,322,633,402.94) as audited by the accounting firm is set aside as statutory surplus reserve.

2. Pursuant to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by MOF, the balance of general reserve shall not be less than 1.5% of the balance of assets exposed to risks and losses at the end of the period. RMB5,198 million is to be set aside as general reserve for 2016.

3. Ordinary share dividends are to be distributed to shareholders in addition to statutory profit distribution in comprehensive consideration of return on shareholders' investments, regulatory requirement on capital adequacy ratio and better promotion of the Company's sustainable development. With 10,685,572,211 shares outstanding at the end of 2016 as the base, a total of RMB1,934,088,570.19 will be distributed in cash at RMB1.81 (before tax) per 10 shares. The retained profits of 2016 will be used in replenishing capital and distributed in coming years.

4. At the end of 2016, with 10,685,572,211 shares outstanding as the base, the Company used the capital reserve of RMB28,760,819,954.76 to strengthen the capital base at two shares transferred per ten shares. The Company's total share capital was increased by 2,137,114,442 shares to 12,822,686,653 shares.

The above-mentioned profit distribution plan and the plan for conversion of capital reserve to share capital shall be implemented within two months after the Annual General Meeting for 2016 of the Company reviews and approves it.

II. PERFORMANCE OF COMMITMENTS

i. Shareholders of the Company Shougang Corporation and State Grid Yingda International Holdings Corporation, Ltd., as well as former shareholder Deutsche Bank Luxembourg S.A., committed not to transferring the Company's shares acquired from the Company's non-public offering in 2011 within five years following the delivery date; share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators as per relevant laws and regulations. Since 26 April 2016, the above-mentioned shares became circulated following the expiration of lock-up period.

Committed by	Shougang Corporation State Grid Yingda International Holdings Corporation, Ltd. Deutsche Bank Luxembourg S.A.
Commitment type	Restrictions on sales of shares of re-financing
Commitment	Committed not to transferring the Company's shares acquired from the Company's non-public offering in 2011 within five years following the delivery date; share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators as per relevant laws and regulations.
Commitment date	26 April 2011
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

ii. The Company's shareholder PICC Property and Casualty Company Limited committed not to transferring the Company's shares acquired from the transfer in 2016 within five years following the delivery date.

Committed by	PICC Property and Casualty Company Limited
Commitment type	Other commitment made in the equity change report
Commitment	Committed not to transferring the Company's shares acquired from the transfer within five years following the delivery date.
Commitment date	17 November 2016
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

II. FUND OCCUPANCY AND RECOVERY DURING THE REPORTING PERIOD

During the reporting period, as audited and assured by Deloitte Touche Tohmatsu Certified Public Accountants LLP, no funds of the Company were occupied for non-operating purposes by controlling shareholder and other related parties.

IV. EXPLANATION ON THE NONSTANDARD AUDITOR'S REPORT

Not applicable.

IX. ENGAGEMENT AND REMOVAL OF INTERMEDIARIES

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the external auditor of the 2016 financial statements with an audit fee of RMB4.38 million and as the auditor of internal controls in 2016 with an audit fee of RMB1.05 million. Deloitte Touche Tohmatsu Certified Public Accountants LLP has provided audit service for the Company for four years.

The Company engaged CSC Financial Co., Ltd. as the sponsor institution for non-public offering of domestic preference share, paying it sponsorship fee and underwriting fee of RMB17 million.

VI. MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the reporting period, the Company was not involved in any material legal proceedings or arbitrations. As at 31 December 2016, the Company had 403 pending lawsuits involving RMB10 million or above individually, totaling RMB14,378 million, of which three cases that involved RMB296 million were brought against the Company. The Company has made full provisions for anticipated liabilities that may arise from pending lawsuits against the Company.

VII. PENALTY IMPOSED ON THE COMPANY, AS WELL AS ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND SHAREHOLDERS HOLDING OVER 5% SHARES

Not applicable.

VIII. CREDIT STANDING OF THE COMPANY'S CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

Not applicable.

IX. STOCK INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES OF THE COMPANY AND INFLUENCE THEREOF

Not applicable.

X. MATERIAL RELATED PARTY TRANSACTIONS

i. Loans to shareholders with a stake of 5% or higher

Loans to shareholders with a stake of 5% or higher in the Company at the end of the reporting period are shown below:

(Unit: RMB1 million)

Shareholder subject to restrictions on sales	Number of shares held	Outstanding loans at end of 2016	Outstanding loans at end of 2015
Shougang Corporation	2,166,607,843	6,020	6,020

ii. Material related party transactions

1. Outstanding loans to shareholders with a stake of 5% or higher in the Company and the related companies controlled by them at the end of the reporting period, with individual amounts of RMB30 million or above, are shown below (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds):

(Unit: RMB1 million)

Related party	Outstanding loans at end of 2016	% of total loans
Shougang Corporation	6,020	0.49
Tonghua Iron & Steel Group Co. Ltd.	650	0.05
Guiyang Shougang Special Steel Co., Ltd.	600	0.05
Jilin Tonggang Mining Co., Ltd.	250	0.02
Bazhou Kaihong Mining Co., Ltd.	150	0.01
Kuche County Tianyuan Coking Co., Ltd.	140	0.01
Beijing Shougang Machinery & Electric Co., Ltd.	139	0.01
Beijing Shougang Alliance of Xingang Science & Trade Co., Ltd.	100	0.01
Shougang Yili Iron & Steel Co., Ltd.	90	0.01
Beijing West Industries Co., Ltd.	80	0.01
Shougang Changzhi Iron & Steel Co., Ltd.	47	0.00

2. At the end of the reporting period, the Company held RMB1,450 million bonds of State Grid Corporation which was related to State Grid Yingda International Holdings Corporation, Ltd.

3. At the end of the reporting period, the Company issued non-financing guarantees worth RMB19,239,600 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) and banker's acceptance bills of RMB1,200 million (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds). The Company issued banker's acceptance bills of RMB100 million (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Shandong Shougang Steel Trade Co., Ltd. and banker's acceptance bills of RMB6.84 million (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) and letters of credit of RMB8,964,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Shougang Penglong Steel Co., Ltd., both of which are related to Shougang Corporation. The Company issued letters of credit of RMB419.04 million, RMB184,687,600 equivalent, RMB139,957,200 equivalent, RMB42.4 million equivalent and RMB147,016,900 million (all with deduction of the amount of margin deposits, pledged certificates of

deposit and treasury bonds) to Jilin Tonggang Mining Co., Ltd., Tonggang Group Import & Export Co., Ltd., Tonghua Iron and Steel Co., Ltd., Shougang Changzhi Iron & Steel Co., Ltd. and China Shougang International Trade & Engineering Corporation respectively, all of which are related to Shougang Corporation.

The Company issued banker's acceptance bills of RMB19,170,400 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Shandong LNINT Co., Ltd. which is related to State Grid Yingda International Holdings Corporation, Ltd. The Company issued banker's acceptance bills of RMB30 million (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Sinoenergy (Dalian) Coal Co., Ltd. which is related to State Grid Yingda International Holdings Corporation, Ltd. The Company conducted foreign exchange trading of RMB138.9 million equivalent (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) with Deutsche Bank (China) Co., Ltd. which is related to Deutsche Bank Aktiengesellschaft.

4. At the end of the reporting period, the Company disbursed outstanding loans of RMB8,863 million to its related companies, accounting for 0.73% of total loans. The Company's related loans had no overdue or default interest. Considering quantity, structure, quality and potential exposures of those related party transactions, the existing related loans would not exert material impact on the Company's normal operation.

iii. Management, pricing principle and basis of related party transactions

During the reporting period, pursuant to the *Administrative Measures for Related party Transactions between Commercial Banks and Their Insiders or Shareholders* released by CBRC, the Company further tightened the management and control of related party transaction risks, reasonably controlled limits of related party transactions and proactively adjusted the transaction structures. These moves helped to further improve related party transaction management and effectively control related party transaction risks. The Company strictly implemented the CBRC's *Administrative Measures for Related party Transactions between Commercial Banks and Their Insiders or Shareholders*, and conducted related party transactions in accordance with the commercial principle and based on the pricing principle and basis that the condition is not lower than that of similar non-related party transactions.

XI. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

i. Material custody, contract and lease

During the reporting period, the Company did not engage in any material custody or contracting of assets of other companies, or other companies did not take custody, engage in contracting of or lease any assets of the Company, either.

ii. Material guarantee

Except for financial guarantees within the business scope as approved by CBRC, the Company had no material guarantees to be disclosed during the reporting period.

iii. Entrusting others to manage cash assets

During the reporting period, the Company did not entrust others for management of cash assets.

iv. Other material contracts

During the reporting period, there was not any material dispute over contracts.

XII. INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON EXTERNAL GUARANTEES

Pursuant to applicable regulations and requirements of CSRC, Independent Directors of the Company reviewed the external guarantees of the Company in 2016 on a fair, impartial and objective basis. Specific review opinions are hereby given below:

The external guarantee service of the Company is a part of the ordinary banking services within the business scope of the Company as approved by the People's Bank of China and China Banking Regulatory Commission. At the end of the reporting period, outstanding guarantees of the Company amounted to RMB20,623 million, a decrease of RMB4,532 million compared with the end of previous year.

The Company enhanced guarantee risk management by including guarantee activities into centralized credit facility management, conducting stringent due diligence, approval and management, and strengthening risk identification, assessment, monitoring and control, which had effectively controlled guarantee risks. During the reporting period, external guarantee service of the Company was run normally without any non-compliance.

XIII. FULFILLMENT OF SOCIAL RESPONSIBILITIES

i. Poverty reduction efforts of the listed company

1. Plan on targeted poverty reduction

In active response to the orientation of the government's poverty alleviation policy, the Company fully raised awareness, strengthened policy guidance and worked hard to alleviate poverty in a targeted way in order to carry out the "13th Five-year" anti-poverty plan and pursuant to the overall arrangement and requirement of the CPC Central Committee, the State Council and the regulatory authorities on poverty relief and development.

Strengthen the building of targeted poverty alleviation mechanism. The Company continued to improve the building of poverty alleviation system and mechanism and made greater efforts on targeted poverty alleviation from the angles of policy orientation, resource allocation, credit granting and public welfare projects, etc. Besides, the Company strengthened communication and cooperation with relevant departments of the government, various guarantee companies, policy banks, insurers and industrial funds to draw on one another's advantages and co-build the multi-tiered financial service system for targeted poverty alleviation.

Support the funding demand of targeted poverty alleviation. The Company strove to develop inclusive finance to address the demand of the poor for financial services. It increased funding for major poverty alleviation projects to help poverty-stricken areas to sustain healthy development of economy and society and lift the poor out of poverty and also promote economic growth and industrial structural upgrade across poverty-stricken areas. It continued to improve the financial service for take-over of industrial transfer and development of emerging industries in poverty-stricken areas to encourage the coordinated development of local industries. The Company also supported ecological construction and environmental protection of poverty-stricken areas for sustainability of economy, society and ecological environment.

Provide innovative products and services for targeted poverty alleviation. According to local conditions of poverty-stricken areas, the Company carried forward financial innovation in respect of targeted poverty alleviation, developed and designed tailor-made products and services by means of product R&D, integrated design and service innovation and effectively increased the diversity of financial product/service offerings for the anti-poverty purpose. In addition, the Company accelerated the construction of institutions, provided a large scale of standardized products and services for targeted poverty alleviation in batches, expanded the coverage of basic financial services and further optimized the level of financial services for the poor.

2. Summary of targeted poverty alleviation efforts in 2016

During the reporting period, the Company deeply implemented the orientation of China's anti-poverty policy and deepened a variety of targeted poverty alleviation work including donation of money and materials and public welfare programmes at the same time of constantly increasing the financial support for targeted poverty alleviation. Cumulatively speaking, the Company provided money of RMB1,135,658,700 for targeted poverty alleviation, supplied materials worth RMB7,973,100 and helped 44,075 poor people on files to rid of poverty.

Extend credits to support targeted poverty alleviation. Giving greater play to the guiding role of credit policy, the Company increased credit support for irrigation and water conservancy of poverty-stricken areas, supported the funding demand of local characteristic and advantageous industries like characteristic agriculture and agricultural product processing industry and used assorted financial products and services including corporate/personal credit to address the funding demand of fight against poverty. During the reporting period, the Company financed RMB592,895,600 for 23 projects of alleviating poverty through industrial development cumulatively and helped 864 poor people on files to shake off poverty.

Donate money and materials for targeted poverty alleviation. During the reporting period, branches of the Company in many places launched donating events which added up to money of RMB3,273,000 and material supplies of RMB7,973,100. The Company held a public welfare activity named "2016 Hua Xia Bank Plan for Growth of Children of Sanitation Workers" and organized the children of some sanitation workers in Beijing to take part in a one-week-long art summer camp at the National Art Museum of China. Besides, the Company launched series of public welfare activities "Hua Xia Star", completed the construction of Hua Xia Star Chuxin Library at No. 1 Middle School of Yi'an Township of Laishui County in Hebei Province and donated 22,000 books to the library. Volunteers from the Company popularized financial knowledge among the senior citizens, answered their questions relating to finance, taught them how to prevent risk and provided financial consulting and assistance services on the occasion of the "Double Ninth Festival". The Company rolled out the public welfare activity themed with "Join hands with Guang'ai for happiness", giving warmth and love to waifs, orphaned and disabled children and impoverished children of Guang'ai School through donation of money and materials and tutorship.

Win award for targeted poverty alleviation efforts. The Company received the "Caring Unit" award from China Social Welfare Foundation, Beijing Guang'ai School and Jinzhai Guang'ai School during the reporting period.

3. Statistical Form on Targeted Poverty Reduction Efforts of the Company in 2016

(Unit: RMB10,000)

Indicator	Quantity & implementation
I. General	
Of which, 1. Money	113,565.87
2. Supplies in monetary terms	797.31
3. Number of persons on file who managed to shake off poverty with the Company's help	44,075
II. Itemized contributions	
1. Poverty elimination through industrial development	
Of which, 1.1 Project types	√ Agriculture and forestry √ Others
1.2 Project number	23
1.3 Project inputs	59,289.56
1.4. Number of persons on file who managed to shake off poverty with the Company's help	864
2. Poverty elimination through education progress	
Of which, 2.1 Funding for poor students	76.30
2.2 Number of poor students funded	3,339
3. Poverty alleviation through improvement of health conditions	
Of which, 3.1 Inputs into improving medical and health resources in poverty-stricken areas	18.00
4. Poverty alleviation through ecological conservation	
Of which, 4.1 Project name	√ Ecological conservation and improvement
4.2 Inputs	70.00
5. Bail-out guarantee	
Of which, 5.1 Inputs to help the poor with disabilities	728.75
5.2 Number of the poor with disabilities that have received the Company's help	4,794
6. Poverty alleviation through social endeavors	
Of which, 6.1 Inputs into fixed-point poverty alleviation	106.86
6.2 Anti-poverty endowment	42.70
7. Other projects	
Of which, 7.1 Project number	44
7.2 Inputs	54,031.01
7.3. Number of persons on file who managed to shake off poverty with the Company's help	35,078
III. Award (Content, Ranking)	
The Company received the "Caring Unit" award from China Social Welfare Foundation, Beijing Guang'ai School and Jinzhai Guang'ai School.	

4. Subsequent plan on targeted poverty alleviation

Expand the channels of helping and supporting poverty-stricken areas. The Company optimized the establishment of outlets at grassroots level and actively promoted the presence in poverty-stricken areas to expand local coverage. At the same time, the Company actively constructed the “second bank” and coordinated with offline physical outlets to let farmers in poverty-stricken areas have access to basic financial services online.

Extend more credits for bigger support. The Company further defined the credit policy of using finance to serve targeted poverty alleviation, channeled more credit funds to poverty-stricken areas and population, made greater efforts on targeted poverty alleviation in a slew of sectors like alleviating poverty through industrial development, education progress and social endeavors, increased the accuracy of anti-poverty and actively provided support for poverty-stricken areas and population. Furthermore, the Company popularized the use of information system on targeted poverty alleviation using finance, updated the information on identity of poverty alleviation targets timely and also improved the accuracy of such information.

Launch public welfare programmes to alleviate poverty in a targeted way. The Company continued to donate money and materials to help poverty-stricken areas and population, focused on promoting the anti-poverty work targeting at the seniors, children, the sick and the disabled, tried hard to know the real demand of the poor, deepened a series of public welfare programmes such as education-based assistance and help to the seniors and the disabled and further strengthened the targeted poverty alleviation concerning poverty-stricken areas and population.

ii. Fulfillment of social responsibilities

The Company continued to deepen the development strategy of “SME Financial Service Provider”, made efforts to build the “Hua Xia Service” brand and showcased a good corporate image of seriously implementing social responsibilities. In 2016, the Company further aligned itself to the national strategy on coordinated development of the Beijing-Tianjin-Hebei region, allocated more resources to the region and energetically promoted the Beijing-Tianjin-Hebei Coordination Card. In 2016, the Company changed the name of “SME Credit Department” to “SME Finance Department” because of the shift from provision of financing service to provision of comprehensive financial services for SMEs so as to boost their fast growth. In 2016, pursuing the all-around service positioning of “large service”, the Company developed the “second bank” that sought for coordinated development with brick-and-mortar bank under the guidance of “Internet plus” financial thinking, improve the service efficiency and also the service for special groups, ameliorated the customer complaint handling mechanism, continued to launch customer satisfaction surveys and enhanced the customer service capability for the central purpose of better customer experience. In 2016, the Company reasonably controlled credit grants to industries with high pollution, high energy consumption and excess capacity, vigorously developed green credit with the theme of “energy conservation, emission reduction and cyclical economy” and successfully applied from the World Bank for the on-lending of the Innovative Financing for Air Pollution Control in Jing-Jin-Ji Program. In the meantime, the Company actively increased IT application and energy/consumption reduction during day-to-day operation in a bid to become a low-carbon pioneer of energy efficiency financing. In 2016, in strict accordance with the government’s requirement on targeted poverty alleviation, the Company used finance

to reduce poverty, continued to innovate in the means of practicing public welfare, built the “Hua Xia Star” SME public welfare platform, rolled out the “Foundation of Hua Xia Bank Plan for Growth of Children of Sanitation Workers”, actively played a part in education about inclusive finance and organized employees to become volunteers to share value and grow together with the whole society. In 2016, 28 outlets of Hua Xia Bank were named the “Best 1,000” Model Outlets by China Banking Association, and the Company received the “Award of Outstanding Contribution to Civilized and Standardized Service”, the “Award of Most Socially Responsible Financial Institution” and the “Award of Outlet Making Special Contribution to Best Social Responsibilities” from China Banking Association.

For details, please refer to the 2015 Social Responsibility Report of Hua Xia Bank Co., Limited disclosed by the Company on the website of Shanghai Stock Exchange (www.sse.com.cn) and the website of the Company (www.hxb.com.cn).

XIV. INDEX OF INFORMATION DISCLOSURES

Matter	Published in (journals)	Date of publication	Published on (website)
Announcement on Preliminary Earnings Estimate of Hua Xia Bank in 2015	<i>China Securities Journal, Shanghai Securities News, Securities Times</i>	26 January 2016	http://www.sse.com.cn
Announcement on Director Resignation of Hua Xia Bank Co., Limited	Ditto	02 February 2016	Ditto
Announcement on the Approval of Hua Xia Bank Co., Limited’s Application for Non-public Offering of Preference Share by China Securities Regulatory Commission	Ditto	27 February 2016	Ditto
Announcement on Resolutions of the 15th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	26 March 2016	Ditto
Announcement on Related Party Transaction of Hua Xia Bank	Ditto	26 March 2016	Ditto
Announcement on Resolutions of the 16th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	31 March 2016	Ditto
Announcement on Change of Senior Executives of Asset Custody Department of Hua Xia Bank Co., Limited	Ditto	14 April 2016	Ditto
Announcement of Hua Xia Bank on Signing Tripartite Supervision Agreement of Deposit of Raised Fund into Special Account	Ditto	15 April 2016	Ditto
Announcement on Listing Transfer of Preference Share Privately Offered	Ditto	15 April 2016	Ditto

Matter	Published in (journals)	Date of publication	Published on (website)
Announcement on Annual Report 2015 of Hua Xia Bank Co., Limited	Ditto	19 April 2016	Ditto
Announcement on Resolutions of the 17th Meeting of the Seventh Board of Directors of Hua Xia Bank Co., Limited	Ditto	19 April 2016	Ditto
Announcement on Resolutions of the 12th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	19 April 2016	Ditto
Notice of Hua Xia Bank on Holding the Annual General Meeting for 2015	Ditto	19 April 2016	Ditto
Announcement of Hua Xia Bank Co., Limited on Circulation of Shares Privately Offered in 2011 and Subject to Restrictions on Sales	Ditto	21 April 2016	Ditto
Announcement on Advance Notice about the Explanation Session of Cash Dividend Distribution of Hua Xia Bank Co., Limited	Ditto	27 April 2016	Ditto
Announcement on 2016 First Quarterly Report of Hua Xia Bank Co., Limited	Ditto	30 April 2016	Ditto
Announcement on Resolutions of Annual General Meeting for 2015 of Hua Xia Bank Co., Limited	Ditto	14 May 2016	Ditto
Announcement on Resolutions of the 14th Meeting of the Seventh Board of Supervisors of Hua Xia Bank Co., Limited	Ditto	18 May 2016	Ditto
Announcement of Hua Xia Bank Co., Limited on Implementing the 2015 Profit Distribution Plan	Ditto	02 July 2016	Ditto
Announcement on Resolutions of the 19th Meeting of the Seventh Board of Directors of Hua Xia Bank Co., Limited	Ditto	13 July 2016	Ditto
Announcement on Resolutions of the 20th Meeting of the Seventh Board of Directors of Hua Xia Bank Co., Limited	Ditto	11 August 2016	Ditto
Announcement on 2016 Interim Report of Hua Xia Bank Co., Limited	Ditto	11 August 2016	Ditto
Announcement on Resolutions of the 21st Meeting of the Seventh Board of Directors of Hua Xia Bank Co., Limited	Ditto	01 September 2016	Ditto
Announcement on Resolutions of the 22nd Meeting of the Seventh Board of Directors of Hua Xia Bank Co., Limited	Ditto	31 October 2016	Ditto

Matter	Published in (journals)	Date of publication	Published on (website)
Announcement on Resolutions of the 16th Meeting of the Seventh Board of Supervisors of Hua Xia Bank Co., Limited	Ditto	31 October 2016	Ditto
Announcement on 2016 Third Quarterly Report of Hua Xia Bank Co., Limited	Ditto	31 October 2016	Ditto
Announcement on Resignation of Independent Director of Hua Xia Bank Co., Limited	Ditto	02 February 2016	Ditto
Announcement of Hua Xia Bank Co., Limited on CBRC's Approval of the Shareholding Change	Ditto	04 November 2016	Ditto
Announcement on Resolutions of the 23rd Meeting of the Seventh Board of Directors of Hua Xia Bank Co., Limited	Ditto	19 November 2016	Ditto
Announcement of Hua Xia Bank Co., Limited on Completion of Stock Ownership Transfer	Ditto	19 November 2016	Ditto
Announcement on Director Resignation of Hua Xia Bank Co., Limited	Ditto	22 November 2016	Ditto
Announcement on Chairman Resignation of Hua Xia Bank Co., Limited	Ditto	02 December 2016	Ditto
Announcement on Resolutions of the 24th Meeting of the Seventh Board of Directors of Hua Xia Bank Co., Limited	Ditto	08 December 2016	Ditto
Announcement on Resolutions of the 25th Meeting of the Seventh Board of Directors of Hua Xia Bank Co., Limited	Ditto	28 December 2016	Ditto

SECTION VI DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

i. Changes in shares

1. Table on Changes in Shares

(Unit: Share)

	Pre-change		Increase/ Decrease (+, -)	Post-change	
	Number	Percentage (%)	Others	Number	Percentage (%)
I. Shares subject to restrictions on sales	2,900,348,038	27.14	-2,900,348,038	0	0
1. State-owned shares					
2. Shares held by state-owned corporations	2,097,436,752	19.63	-2,097,436,752	0	0
3. Shares held by other domestic investors					
Of which:					
Shares held by domestic non-state-owned corporations					
Shares held by domestic natural persons					
4. Shares held by foreign investors	802,911,286	7.51	-802,911,286	0	0
Of which:					
Shares held by foreign corporations	802,911,286	7.51	-802,911,286	0	0
Shares held by foreign natural persons					
II. Shares not subject to restrictions on sales	7,785,224,173	72.86	2,900,348,038	10,685,572,211	100.00
1. RMB-denominated ordinary shares	7,785,224,173	72.86	2,900,348,038	10,685,572,211	100.00
2. Foreign shares listed domestically					
3. Foreign shares listed overseas					
4. Others					
III. Total number of shares	10,685,572,211	100.00	0	10,685,572,211	100.00

Note: 2,900,348,038 circulation shares subject to restrictions on sales became tradable since 26 April 2016.

2. Explanation on changes in shares

Not applicable.

3. Influence of share changes on financial indicators including earnings per share and net assets per share in the past year and during the recent period

Not applicable.

ii. Changes in shares subject to restrictions on sales

(Unit: Share)

Shareholder subject to restrictions on sales	Number of shares subject to restrictions on sales at the beginning of the year (Refer to Note 1 for details)	Number of shares released from restrictions on sales during the year (Refer to Note 2 for details)	Increase of shares subject to restrictions on sales in the year	Number of shares subject to restrictions on sales at the end of the year	Reason for restrictions on sales	Date on which shares become tradable
Shougang Corporation	1,078,278,613	1,078,278,613	0	0	(Refer to Note 1 for details)	26 April 2016
State Grid Yingda International Holdings Corporation, Ltd.	1,019,158,139	1,019,158,139	0	0	(Refer to Note 1 for details)	26 April 2016
DEUTSCHE BANK LUXEMBOURG S.A. Deutsche Bank Luxembourg S.A.	802,911,286	802,911,286	0	0	(Refer to Note 1 for details)	26 April 2016
Total	2,900,348,038	2,900,348,038	0	0	-	-

Notes:

1. In April 2011, the Company privately placed 1,859,197,460 shares subject to restrictions on sales to Shougang Corporation, State Grid Yingda International Holdings Corporation, Ltd. and Deutsche Bank Luxembourg S.A., which subscribed 691,204,239 shares, 653,306,499 shares and 514,686,722 shares respectively. The shares that the said investors subscribed were locked for 60 months from 26 April 2011. In July 2013, with 6,849,725,776 shares outstanding as the base, the capital reserve was used to strengthen the capital base at three shares transferred per ten shares, resulting in an increase of 2,054,917,733 shares including 557,759,238 shares subject to restrictions on sales. In July 2015, with 8,904,643,509 shares outstanding as the base, the capital reserve was used to strengthen the capital base at two shares transferred per ten shares, resulting in an increase of 1,780,928,702 shares including 483,391,340 shares subject to restrictions on sales.

2. 2,900,348,038 circulation shares subject to restrictions on sales became tradable since 26 April 2016.

II. SECURITIES ISSUE AND OFFERING

i. Securities issue as at the end of the reporting period

Not applicable.

ii. Changes in the total number of shares and shareholder structure as well as the Company's asset & liability structure

Not applicable.

iii. Individual employee stock ownership

Not applicable.

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER

i. Number of shareholders and shareholdings

(Unit: Share)

Total number of shareholders at the end of the reporting period	102,808	Total number of shareholders at the end of the month immediately before disclosing date of this Annual Report					100,464
Shareholdings of the top 10 shareholders							
Shareholder subject to restrictions on sales	Nature of shareholder	Percentage (%)	Number of shares held by shareholders	Increase/decrease during the reporting period	Number of shares subject to restrictions on sales that were held	Number of pledged or frozen shares	
						Share status	Number
Shougang Corporation	State-owned legal person	20.28	2,166,607,843	0	0	None	
PICC Property and Casualty Company Limited	State-owned legal person	19.99	2,136,045,885	2,136,045,885	0	None	
State Grid Yingda International Holdings Corporation, Ltd.	State-owned legal person	18.24	1,948,793,952	0	0	None	
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	4.37	467,376,000	467,376,000	0	None	
China Securities Finance Corporation Limited	State-owned legal person	2.53	270,131,627	-46,571,848	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	2.13	227,760,000	0	0	Pledged	226,892,954
Huaxia Life Insurance Company Limited – Universal Insurance Product	Others	1.77	188,697,949	188,697,949	0	None	
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	1.31	139,726,583	0	0	Pledged	133,000,000
Central Huijin Asset Management Co., Ltd.	State-owned legal person	1.30	139,097,300	0	0	None	
Buttonwood Investment Holding Company Ltd.	State-owned legal person	0.87	92,747,540	-18,530,300	0	None	

Shareholdings of the top 10 shareholders not subject to restrictions on sales		
Shareholder name	Number of shares not subject to restrictions on sales that were held	Type of shares
Shougang Corporation	2,166,607,843	RMB-denominated ordinary shares
PICC Property and Casualty Company Limited	2,136,045,885	RMB-denominated ordinary shares
State Grid Yingda International Holdings Corporation, Ltd.	1,948,793,952	RMB-denominated ordinary shares
Yunnan Hehe (Group) Co., Ltd.	467,376,000	RMB-denominated ordinary shares
China Securities Finance Corporation Limited	270,131,627	RMB-denominated ordinary shares
Runhua Group Co., Ltd.	227,760,000	RMB-denominated ordinary shares
Huaxia Life Insurance Company Limited – Universal Insurance Product	188,697,949	RMB-denominated ordinary shares
Shanghai Giant Lifetech Co., Ltd.	139,726,583	RMB-denominated ordinary shares
Central Huijin Asset Management Co., Ltd.	139,097,300	RMB-denominated ordinary shares
Buttonwood Investment Holding Company Ltd.	92,747,540	RMB-denominated ordinary shares
Remarks on the connected relation or concerted action of the above shareholders	The Company has no knowledge of any other connected relations among the above-mentioned shareholders.	

Notes:

1. The transfer of all the shares held by Deutsche Bank Aktiengesellschaft, Deutsche Bank Luxembourg S.A. and SAL. OPPENHEIM JR. & CIE. AG & CO. KOMMANDITGESELLSCHAFT AUF AKTIEN in the Company to PICC Property and Casualty Company Limited was completed in November 2016. After the transfer, PICC Property and Casualty Company Limited held 2,136,045,885 or 19.99% shares of the Company. PICC Property and Casualty Company Limited committed not to transferring the Company's shares acquired from the transfer within five years following the delivery date.

2. As approved by China National Tobacco Corporation, Hongta Tobacco (Group) Co., Ltd. transferred the 467,376,000 shares it held in the Company to Yunnan Hehe (Group) Co., Ltd. The ownership transfer was completed on 14 June 2016.

3. 2,900,348,038 circulation shares subject to restrictions on sales became tradable since 26 April 2016.

ii. Number of shares subject to restrictions on sales held by top ten shareholders and restrictions on sales

Not applicable.

iii. Particulars of shareholders holding over 5% shares of the Company

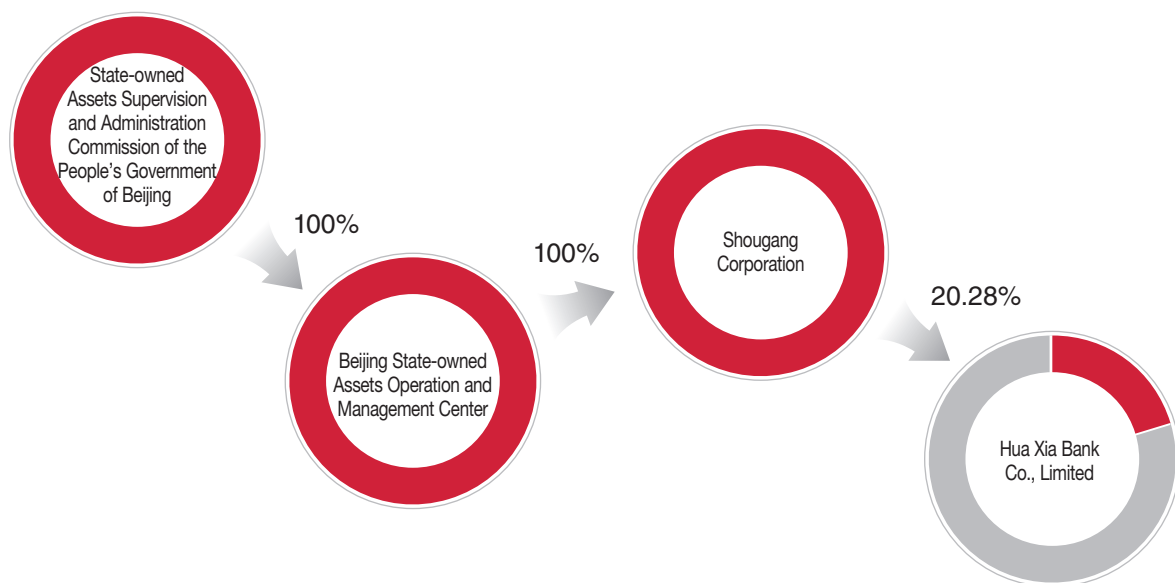
The Company has no controlling shareholder or de facto controller. Shougang Corporation is the largest shareholder of the Company.

At the end of the reporting period, shareholders holding over 5% shares of the Company were Shougang Corporation (20.28%), PICC Property and Casualty Company Limited (19.99%) and State Grid Yingda International Holdings Corporation, Ltd. (18.24%).

1. Shougang Corporation

Founded on 15 October 1992, Shougang Corporation grew out of Shijingshan Steel and Iron Works which was established in 1919 and reorganized into Shougang Group in September 1996. As the parent company of Shougang Group, Shougang Corporation operated all the assets of Shougang Group. On 2 August 1999, Shougang Corporation, as a state-owned asset investment entity authorized by the People’s Government of Beijing Municipality, was restructured into a solely state-owned company as approved by the State Economic and Trade Commission and the People’s Government of Beijing Municipality. With organizational code 10112000-1, Shougang Corporation has a registered capital of RMB7,263.94 million and its legal representative is Jin Wei. Shougang Corporation is a large enterprise group with the operation covering different industries, regions and countries. Its core businesses include industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technological service, domestic commerce, public catering, material supply and sales, warehouse, real estate, residential service, consultation, leasing, agriculture, forestry, husbandry, fishery (except for those without special license) and authorized management of state-owned assets.

The equity relationship between the Company and Shougang Corporation as the largest shareholder is illustrated below:



2. PICC Property and Casualty Company Limited

PICC Property and Casualty Company Limited was sponsored by People's Insurance Company of China in July 2003 after obtaining approval from the State Council and CIRC. It, with a registered capital of RMB14,828.51 million, is the largest property insurer in Asia. The unified social credit code is 91100000710931483R (4-1) and the legal representative is Wu Yan. Its business scope includes: property loss insurance, liability insurance, credit insurance, accident insurance, short-term health insurance, guarantee insurance and other kinds of RMB or foreign-currency insurance business; reinsurance business in relation to the above-mentioned business; service and consulting in relation to property insurance, accident insurance and short-term health insurance and their reinsurance; business handling on behalf of insurers; investment and fund utilization business permitted by national laws and regulations, and other business prescribed by national laws and regulations or approved by China's insurance regulatory authority.

3. State Grid Yingda International Holdings Corporation, Ltd.

State Grid Yingda International Holdings Corporation, Ltd. (abbreviated as "State Grid Yingda Group Company" and formerly known as "SGCC Asset Management Co., Ltd."), founded on 18 October 2007, is a wholly-owned subsidiary of State Grid Corporation of China with a registered capital of RMB19 billion and Xin Xuwu as its legal representative. Its unified social credit code is 91110000710935089N. It mainly deals with investment and asset operation and management, asset custody; services in corporate restructuring, M&A, strategic placement, start-up business; investment advisory and consultation etc.

iv. Special explanation on the Company without controlling shareholder

The Company has no controlling shareholder. Shougang Corporation is the largest shareholder of the Company.

v. Special explanation on the Company without de facto controller

The Company has no de facto controller. Shougang Corporation is the largest shareholder of the Company.

SECTION VII PREFERENCE SHARES

I. ISSUANCE AND LISTING OF PREFERENCE SHARES IN LATEST THREE YEARS

(Unit: 10,000 shares)

Preference share code	Preference share name	Date of issuance	Issuance price (RMB yuan)	Coupon rate (%)	Issuance number	Date of listing	Number of shares listed for trading	Date of de-listing
360020	Hua Xia Preference Share 1	23 March 2016	100	4.20	20,000	20 April 2016	20,000	-

Notes:

1. According to the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No.427) and the *Reply on Approving the Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited* (ZH.J.X.K. [2016] No.342), the Bank issued 200 million preference shares in a non-public manner on 23 March 2016 and started transferring them on the comprehensive business platform of Shanghai Stock Exchange since 20 April 2016.

2. The coupon rate of Hua Xia Preference Share 1 in the first five years was 4.20%, including the arithmetic mean (2.59%) of the five-year T-bonds 20 trading days before the cut-off date of payment for the preference shares issued this time (the date just 20 trading days before the cut-off date of payment was excluded) and the fixed premium (1.61%). The coupon rate was adjusted once every five years in light of the change in benchmark interest rates.

3. Use of money raised: As approved by CSRC, the Company privately issued 200 million preference shares at a par value of RMB100 each on 23 March 2016. All the money actually raised after deducting the issuing expenses, netted to RMB19,978 million, were used to replenish the tier 1 capital.

II. NUMBER OF PREFERENCE SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING OF THE TOP 10 PREFERENCE SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

(Unit: Share)

Total number of preference shareholders as at the end of the reporting period	15	Total number of preference shareholders at the end of the month immediately before the disclosure date of annual report	15			
Particulars of shareholding of the top 10 preference shareholders						
Name of shareholder	Shares held at the end of the period	Increase/decrease during the reporting period	Shareholding percentage (%)	Nature of shareholder	Number of pledged or locked-up shares	Class of shares
Ping An Insurance (Group) Company of China, Ltd. – Participating – Participating personal insurance product	39,100,000	39,100,000	19.55	Others	None	Preference share
Ping An Insurance (Group) Company of China, Ltd. – Universal – Universal personal insurance product	39,100,000	39,100,000	19.55	Others	None	Preference share
Ping An Insurance (Group) Company of China, Ltd. – Traditional – Ordinary insurance product	39,100,000	39,100,000	19.55	Others	None	Preference share
Truvalue Asset Management Co., Ltd.	19,500,000	19,500,000	9.75	Others	None	Preference share
Bank of Communications Schroder Asset Management Co., Ltd.	11,200,000	11,200,000	5.60	Others	None	Preference share
Bank of Communications Schroder Fund Management Co., Ltd.	8,600,000	8,600,000	4.30	Others	None	Preference share
Bank of Beijing Scotiabank Asset Management Co., Ltd.	8,400,000	8,400,000	4.20	Others	None	Preference share
China Resources Sztic Trust Co., Ltd. – Investment No. 1 Stand-alone Money Trust	7,300,000	7,300,000	3.65	Others	None	Preference share
Bosera Fund Management Co., Ltd.	5,600,000	5,600,000	2.80	Others	None	Preference share
China CITIC Bank Co., Ltd.	5,600,000	5,600,000	2.80	Others	None	Preference share
AXA SPDB Investment Managers Co., Ltd.	5,600,000	5,600,000	2.80	Others	None	Preference share
Connected relations or concert party action among top 10 preference shareholders and among the afore-mentioned shareholders and top 10 ordinary shareholders	Ping An Insurance (Group) Company of China, Ltd. – Participating – Participating personal insurance product, Ping An Insurance (Group) Company of China, Ltd. – Universal – Universal personal insurance product and Ping An Insurance (Group) Company of China, Ltd. – Traditional – Ordinary insurance product are persons acting in concert. Bank of Communications Schroder Asset Management Co., Ltd. and Bank of Communications Schroder Fund Management Co., Ltd. are connected.					

III. PAYOUT OF DIVIDENDS ON PREFERENCE SHARES

i. Distribution of profit from preference shares

Dividends on the preference shares issued by the Bank are paid annually in cash in a non-cumulative way. After receiving dividends at the agreed-upon coupon rate, preference shareholders of the Company will not join ordinary shareholders in the distribution of remaining profit.

On 28 March 2017, the Company paid dividends to all the holders of Hua Xia Preference Share 1 (Stock Code: 360020) that were registered by the closure of market on 27 March 2017. A cash dividend of RMB4.2 (before tax) was paid per preference share at the coupon rate of 4.2% and the dividends distributed this time totaled to RMB840 million.

Please refer to the announcements published by the Company on the website of Shanghai Stock Exchange and the website of the Company for details on the dividend payment.

ii. Amount and proportion of dividends distributed on preference shares in the latest three years

(Unit: RMB1 million)

Year	Amount distributed	Distribution proportion
2016	840	100%
2015	-	-
2014	-	-

Note: Distribution proportion=(Dividend amount distributed/agreed-upon dividend amount paid of the year)×100%

IV. REDEMPTION OR CONVERSION OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Company did not redeem or convert any preference shares.

V. RESTORATION OF VOTING RIGHTS OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Bank did not restore any voting right of preference shares.

VI. ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES AND RATIONALE

According to the *Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, the *Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments (Revised in 2014)* and the *Rules for Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF as well as the preference share issuing plan, preference shares issued by the Bank this time shall be calculated as equity instruments.

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Company will classify the financial instruments it has issued into equity instruments when all of the following conditions are met: (1) such financial instruments should exclude contractual obligations of delivering cash or other financial assets to another party and contractual obligations of exchanging financial assets or financial liabilities with another party; and (2) the Company's own equity instruments should be or can be used for settlement of such financial instruments in the future. In the case of non-derivative instruments, the financial instruments should exclude contractual obligations of delivering variable equity instruments for settlement; and in the case of derivative instruments, the Company can only exchange for cash or other financial assets at a fixed amount with a fixed number of own equity instruments for settlement of such financial instruments.

On 23 March 2016, the Company issued non-cumulative preference shares to domestic investors in an aggregate amount of RMB20 billion, all of which after deducting issuing cost was recognized into other tier 1 capital. During the existence of the preference shares, the Company has the right to exercise the right to redeem them all or in part on the interest calculation day of each year if being approved by CBRC and meeting relevant requirements within five years after the end of the issuance (i.e. 28 March 2016). Preference shareholders have no right to ask the Company to redeem the preference shares and should not have the expectation on the preference shares being redeemed. The coupon rate of the preference shares is adjusted by stages, i.e. the dividends are distributed in cash at a fixed dividend rate once a year within the five-year dividend rate adjustment period. Upon approval of the general meeting, the Company has the right to cancel all or part of the dividends distributed on the preference shares, which is not deemed a default event.

Upon the approval of CBRC, all or part of the preference shares issued by the Company this time and still in existence will be converted into ordinary shares of the Company upon the occurrence of the following events that will trigger mandatory conversion of shares to the Company: (1) when Core Tier 1 Capital Adequacy Ratio of the Company falls to 5.125% or below, the Company shall have the right to convert all or part of the preference shares that have been issued and are still in existence into ordinary shares as per the total coupon amount without the prior consent of preference shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Company to above 5.125%; (2) when any tier 2 capital instrument trigger event occurs, the Company shall have the right to convert all of the preference shares that have been issued and are still in existence into ordinary shares as per the total coupon amount without the prior consent of preference shareholders.

When the triggers for compulsory share conversion are met, the preference shares that are still in existence will be wholly or partially converted into ordinary shares at a price of RMB14.00 per share subject to the approval of regulatory authority. On 8 July 2015, the Company strengthened the capital base with capital reserve by using every 10 shares for an increase of two shares. As a result, the price of mandatory share conversion was changed to RMB11.67. From the day when the Board of Directors of the Company approved the preference share issuing plan, the Company will change the price of mandatory share conversion and disclose relevant information according to pertinent provisions whenever shares of the Company change due to distribution of stock dividend, share conversion to strengthen capital base and additional issuance (excluding share capital increase due to conversion of financing instruments issued by the Company and with articles allowing conversion into ordinary shares, e.g. preference share and convertible corporate bond) and rights issue.

In accordance with applicable laws and regulations and the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No. 427), funds raised from the preference share issuance are used to replenish other tier 1 capital of the Company. When the Company liquidates, preference shareholders of the Company take precedence over ordinary shareholders to be distributed the residual properties of the Company. That is, when the Company liquidates, dividends that have not been canceled nor distributed but have been announced to distributed but not been paid for the period yet as well as the total carrying amount of preference shares held shall be paid from the residual properties after liquidation firstly to preference shareholders; if the residual properties are not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders.

In conclusion, the Company recognizes the preference shares into other equity instruments according to the articles of the contract on the issuance of preference shares and the economic substance.

SECTION VIII BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

i. Changes in shares held by directors, supervisors and senior management members and their remunerations during the reporting period

Name	Position	Gender	Date of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period)	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Li Ruge	Vice Chairman	Male	1963	28 September 2007 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Fan Dazhi	Director	Male	1964	28 September 2007 to 7 March 2017	0	0	0	41.20	None	No
	President			26 December 2008 to 5 January 2017						
Wang Hongjun	Director	Male	1969	30 November 2016 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Li Jianbo	Director	Male	1965	27 February 2014 to the reelection of the Board of Directors	0	0	0	0.80	None	Yes
Liu Chunhua	Director	Female	1970	27 February 2014 to the reelection of the Board of Directors	0	0	0	37.08	None	No
	Chief Audit Officer			Since 18 December 2013						
Ren Yongguang	Director	Male	1959	30 October 2010 to the reelection of the Board of Directors	0	0	0	37.08	None	No
	Vice President			Since 14 October 2010						
Zhao Junxue	Director	Male	1958	10 September 2002 to the reelection of the Board of Directors	0	0	0	212.00	None	No
	Secretary to the Board			Since 10 August 2002						
Ding Shilong	Director	Male	1963	28 September 2007 to the reelection of the Board of Directors	0	0	0	4.00	None	Yes
Zou Libin	Director	Male	1967	27 February 2014 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zeng Xiangquan	Independent Director	Male	1955	30 October 2010 to the reelection of the Board of Directors	0	0	0	23.20	None	No
Yu Changchun	Independent Director	Male	1952	30 October 2010 to the reelection of the Board of Directors	0	0	0	23.80	None	No
Xiao Wei	Independent Director	Male	1960	27 February 2014 to the reelection of the Board of Directors	0	0	0	22.60	None	No
Chen Yonghong	Independent Director	Male	1962	27 February 2014 to the reelection of the Board of Directors	0	0	0	24.40	None	No
Yang Delin	Independent Director	Male	1962	27 February 2014 to the reelection of the Board of Directors	0	0	0	24.40	None	No
Wang Huacheng	Independent Director	Male	1963	27 February 2014 to the reelection of the Board of Directors	0	0	0	23.80	None	No
Cheng Yanhong	Chairman of the Board of Supervisors	Female	1958	29 June 2004 to the reelection of the Board of Supervisors	0	0	0	41.20	None	No

Name	Position	Gender	Date of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period)	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Li Liangang	Supervisor	Male	1968	30 October 2010 to the reelection of the Board of Supervisors	0	0	0	6.00	None	No
Tian Ying	Supervisor	Female	1965	28 September 2007 to the reelection of the Board of Supervisors	0	0	0	5.40	None	Yes
Cheng Chen	Supervisor	Female	1975	28 September 2007 to the reelection of the Board of Supervisors	0	0	0	5.40	None	Yes
Zhu Wei	External Supervisor	Male	1965	27 February 2014 to the reelection of the Board of Supervisors	0	0	0	16.00	None	No
Lin Xin	External Supervisor	Male	1966	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	16.00	None	No
Wu Changqi	External Supervisor	Male	1955	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	15.40	None	No
Ma Yuanju	External Supervisor	Male	1957	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	14.80	None	No
Sun Tongjun	Employee Supervisor	Male	1961	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	116.60	None	No
Li Qi	Employee Supervisor	Male	1958	19 July 2001 to the reelection of the Board of Supervisors	0	0	0	116.60	None	No
Wang Liying	Employee Supervisor	Female	1962	27 February 2014 to the reelection of the Board of Supervisors	0	0	0	116.60	None	No
Li Xiang	Vice President	Male	1957	Since 28 September 2007	0	0	0	37.08	None	No
Guan Wenjie	Vice President	Male	1970	Since 24 January 2017	0	0	0	116.60	None	No
	Principal of Financial Affairs			Since 27 February 2014						
Wu Jian	Former Chairman	Male	1954	26 December 2008 to 1 December 2016	0	0	0	41.20	None	No
	Former director			19 July 2001 to 1 December 2016						
Christian K. Ricken	Former director	Male	1966	30 October 2010 to 29 January 2016	0	0	0	0.40	None	Yes
Robert Vogtle	Former director	Male	1962	4 February 2016 to 18 November 2016	0	0	0	8.80	None	Yes
Total	/	/	/	/	/	/	/	1,148.44	/	/

Notes:

1. The allowance in total remuneration received by directors and supervisors from the Company during the reporting period was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors*.

2. Vice Chairman Li Ruge voluntarily gave up receiving allowance from the Company in 2016. Director Wang Hongjun voluntarily gave up receiving allowance from the Company since November 2016. Director Li Jianbo received his director's allowance from the Company from January to February 2016, and then voluntarily gave up such allowance from March 2016 on. Director Ding Shilong received his director's allowance from the Company from January to April 2016, and then voluntarily gave up such allowance from May 2016 on. Director Zou Libin voluntarily gave up receiving allowance from the Company in 2016.

3. Remunerations of the Chairman, presidents, Chairman of the Board of Supervisors and other principals of the Company are subject to the policy of Beijing government on reform of remunerations of executives of local state-owned enterprises.

4. Pre-tax remunerations of the Chairman, presidents, Chairman of the Board of Supervisors, Employee Supervisors and other senior management members serving in the Company are under confirmation and will be disclosed thereafter.

5. On 6 December 2016, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Electing Mr. Fan Dazhi Chairman of the Bank* at its 24th meeting, and Mr. Fan Dazhi was elected Chairman of the Bank (his qualification is to be approved by CBRC). On 5 January 2017, Mr. Fan Dazhi resigned from the post of president of the Company due to work engagement. On 7 March 2017, Mr. Fan Dazhi resigned from the posts of the Company's chairman, director and member of relevant committees of the Board of Directors due to work engagement.

The rest part of pre-tax remunerations for 2015:

Name	Position	The rest part of pre-tax remunerations for 2015 (RMB10,000)
Fan Dazhi	Director, President	-
Liu Chunhua	Director, CAO	-
Ren Yongguang	Director, Vice President	-
Zhao Junxue	Director, Secretary to the Board of Directors	32.86
Cheng Yanhong	Chairman of the Board of Supervisors	-
Sun Tongjun	Employee Supervisor	106.26
Li Qi	Employee Supervisor	102.06
Wang Liying	Employee Supervisor	62.83
Li Xiang	Vice President	-
Guan Wenjie	Vice President, Principal of Financial Affairs	106.57
Wu Jian	Former Chairman	-
Li Guopeng	Former employee supervisor	0.00
Huang Jinlao	Former vice president	-
Wang Yaoting	Former vice president	-

Notes:

1. From January 2015 on, remunerations of the Chairman, presidents, Chairman of the Board of Supervisors and other principals of the Company are subject to the policy of Beijing government on reform of remunerations of executives of local state-owned enterprises. The final remunerations are being confirmed, and the remaining part will be disclosed separately after confirmation.

2. Part of remunerations paid to the Secretary to the Board, Principal of Financial Affairs and Employee Supervisors during the reporting period have been disclosed in the Annual Report 2015, and the rest part of pre-tax remunerations for 2015 is hereby disclosed. Bonus to the above-mentioned persons shall be delayed in payment. The total bonus subject to delayed payment in 2015 is RMB2,363,200 and is not paid to those individuals yet.

ii. Positions of directors and supervisors in shareholder entities during the reporting period

Name	Shareholder entity	Position	Tenure
Wang Hongjun	Shougang Corporation	CFO	Since August 2015
Li Jianbo	Yunnan Hehe (Group) Co., Ltd.	Director, Executive Deputy General Manager	January 2015 – January 2017
		Director, General Manager	Since January 2017
Zou Libin	Shougang Corporation	Head of Operation and Finance Department	Since December 2015
Li Liangang	Runhua Group Co., Ltd.	Employee	Since June 2015

iii. Main work experiences of directors, supervisors and senior management members and their positions or concurrent jobs in other entities

Li Ruge, Vice Chairman, male, was born in August 1963. He holds a master's degree and is a senior accountant. He served as Deputy Director, Director and Member of the Party Committee of Shandong Heze Power Plant, General Manager and Member of the Party Committee of Shandong Power Supply Bureau Fuel Company, Head of the Financial Department of Shandong Power Supply Bureau, Vice Chief Accountant, Chief Accountant, Deputy General Manager and Member of the Party Committee of Shandong Power Group Corporation, Vice Chief Accountant of China Guodian Corporation, Chairman of State Grid Yingda International Trust Investment Corporation, Vice Chief Accountant, Head of the Financial Department and Head of the Fund Management Center of State Grid Corporation of China. He currently serves as Chief Accountant and Member of Leading Party Group of State Grid Corporation of China.

Fan Dazhi, Former director and ex-president, male, was born in September 1964. He is a PhD and senior accountant. He served as Deputy Manager of Finance Department and Deputy Manager of Treasury Department of Beijing International Trust and Investment Co., Ltd., Manager of Investment Banking Department and Manager of the Head Office of Investment Banking of Beijing International Trust and Investment Co., Ltd., Deputy Head and Member of the Leading Party Group of Beijing Overseas Financing and Investment Management Center, Director, Deputy General Manager and Member of the Leading Party Group of Beijing State-owned Assets Management Co., Ltd., Director, General Manager and Vice Secretary of the Party Committee of Beijing Securities Co., Ltd., Director, Deputy General Manager and Member of the Leading Party Group of Beijing Capital Group, Vice President and Deputy Secretary of the Party Committee of Hua Xia Bank, Director, Vice President and Deputy Secretary of the Party Committee of Hua Xia Bank, Director, President and Deputy Secretary of the Party Committee of Hua Xia Bank, as well as Director, President and Secretary of the Party Committee of Hua Xia Bank.

Wang Hongjun, Director, male, was born in March 1969. He holds a master's degree and is a senior accountant. He was Deputy Chief Accountant and Chief Accountant of BBMG Corporation, as well as Head of Financial Department, CFO and Director of BBMG Corporation. He currently serves as CFO of Shougang Corporation.

Li Jianbo, Director, male, was born in June 1965. He holds a bachelor's degree and is a senior accountant. He was ever Deputy Chief and Chief of Planning and Statistics Section of Yuxi Cigarette Factory, Deputy Chief Economist, Chief Economist, Director, Chairman of the Board of Supervisors and Vice President of Hongta Tobacco (Group) Co., Ltd., and Director and Executive Deputy General Manager of Yunnan Hehe (Group) Co., Ltd. He currently serves as Director and General Manager of Yunnan Hehe (Group) Co., Ltd.

Liu Chunhua, Director, Chief Audit Officer, female, was born in January 1970. She holds a master's degree and is a senior economist. She was ever Deputy Chief (divisional level) of Planning and Treasury Division of Jiangxi International Trust and Investment Corporation; Full-time Discipline Inspector of Discipline Inspection Team of Leading Party Group (divisional level) and Deputy Director of Inspection Office, General Manager of Human Resources Department, Deputy Leader of Preparatory Group of Hua Xia Bank Fund Company, Director of Inspection Office and Deputy Secretary of the Party Discipline Committee of Hua Xia Bank. She once temporarily served as Assistant to Director of Business Innovation Supervision & Cooperation Department of CBRC. She currently serves as Director, Member of the Party Committee, Secretary of the Party Discipline Committee and Chief Audit Officer of Hua Xia Bank.

Ren Yongguang, Director, Vice President, male, was born in December 1959. He holds a bachelor's degree and is a senior economist. He used to be Deputy Head and Head of Foreign Fund Management Division, Head of Foreign Exchange Management Division, Director of Executive Office and Head of Plan Fund Division of PBC Beijing Branch, Head of Credit Management Division of Business Management Department, Deputy Director and Member of Leading Party Group of Business Management Department of the PBC, member of the Preparation Team for and Deputy Director General and Member of Leading Party Group of CBRC Beijing Office, Director, Vice President and Deputy Secretary of the Party Committee of Hua Xia Bank. He currently serves as Director, Vice President, Member of the Party Committee and Chairman of the Labor Union of Hua Xia Bank.

Zhao Junxue, Director, Secretary to the Board, male, was born in April 1958. He holds a master's degree and is a senior economist. He served as Assistant to General Manager of South Branch of China National Packaging Corporation, Deputy General Manager and General Manager of Yuehai Finance Holding Co., Ltd., and General Manager and Secretary of Leading Party Group of Shenzhen Branch of Hua Xia Bank. He currently serves as Director and Secretary to the Board of Directors of Hua Xia Bank.

Ding Shilong, male, was born in July 1963. He is a PhD in management and a senior accountant. He served as Deputy Chief and Chief of the General Financial Section of Henan Power Industry Bureau, Deputy Head of the Financial Division, Assistant Consultant (holding a temporary leading post) of Electric Regulation Division and State-owned Asset Supervision Division of the Electric Power Department and Associate Chief Accountant and Head of the Financial Division of Henan Power Company (Bureau). He later became Chief Accountant of Henan Power Company, Chairman of Henan Kaixiang Electric Power Industrial Holding Co., Ltd., Deputy Head of the Financial Asset Management Department of State Grid Corporation of China, Deputy General Manager and Member of Leading Party Group of SGCC Asset Management Co., Ltd., Deputy General Manager and Member of Leading Party Group of State Grid Yingda International Holdings Corporation, Ltd., and Member of Leading Party Group, Deputy General Manager and Chief Accountant of State Grid Jibei Electric Power Company Limited. He currently serves as the Secretary General of Enterprise Management Association of SGCC.

Zou Libin, Director, male, was born in September 1967. He holds a master's degree and is a senior accountant. He was ever a clerk of Malaysia Division of International Trade Department, JV Division of overseas Headquarters, JV Division of International Trade Department and Foreign Economic Division of Economic and Trade Department of Shougang, a professional of JV Management Division of Industrial Development Department of Shougang. Then he served as Assistant to Chief and Deputy Chief of Listed Company Management Division of Capital Operation Department of Shougang Corporation, Deputy Division Chief of Bodi Investment Co., Ltd., Deputy Chief of Treasury Division of Budget and Finance Department of Shougang Xingang Co., Ltd., Assistant to Head and Head of Capital Operation Department and Head of Investment Management Department, and Head of Budget and Finance Department of Shougang Corporation. He currently serves as Head of Operation and Finance Department of Shougang Corporation.

Zeng Xiangquan, Independent Director, male, was born in November 1955. He is a PhD in economics, professor and tutor to PhD students. He was the Dean of the School of Labor and Human Resources of Renmin University of China. Now, he is a professor of the School of Labor and Human Resources of Renmin University of China.

Yu Changchun, Independent Director, male, was born in February 1952. He is a PhD and professor. He used to be associate professor, dean of the teaching-research section and Deputy Dean of the Accounting Department of Jilin Finance and Trade College; Dean, professor and MA student adviser of the Accounting Department of Changchun Taxation College; Director of Teaching and Research Center, Professor and tutor to PhD students of Beijing National Accounting Institute. Now, he is a professor of Beijing National Accounting Institute.

Xiao Wei, Independent Director, male, was born in December 1960. He holds a master's degree and once Director of Hainan Office of China Legal Affairs Center. He established Jun He Law Offices in Beijing in 1989 and is the Offices' Director and Partner now.

Chen Yonghong, Independent Director, male, was born in December 1962. He holds a bachelor's degree and is a Chinese CPA and senior accountant. He is a leading talent in China's accounting sector. He was ever Senior Staff Member and Principal Staff Member of Investment Audit Division of Hunan Audit Office; Deputy Director and Director of Hunan Auditors Office, Chairman and Chief Accountant of Baker Tilly China, and Principal Partner and Chief Accountant of Baker Tilly China Certified Public Accountants. Now, he is Partner of Baker Tilly China Certified Public Accountants and Chairman of Tianzhi Engineering Project Management Co., Ltd.

Yang Delin, Independent Director, male, was born in April 1962. He is a PhD and professor. He once taught Physics at No. 2 Middle School of Xiangfan and Hubei Provincial Supply and Marketing Institute, was an engineer of (Planning Division) and Assistant Researchers of Mathematics Department Office of Department Co-office of Wuhan Institute of Physics, Chinese Academy of Sciences; held a temporary post of Deputy Director/Member of Party Leading Group of Lanzhou Economic Commission; and Lecturer and Associate Professor of School of Economics and Management of Tsinghua University. Now, he is a professor of School of Economics and Management of Tsinghua University.

Wang Huacheng, Independent Director, male, was born in January 1963. He is a PhD and professor. He was once Teaching Assistant, Lecturer, Associate Professor and Deputy Director of Accounting Department and Vice Dean of School of Business of Renmin University of China. Now, he is a professor and tutor to PhD students of School of Business of Renmin University of China.

Cheng Yanhong, Chairperson of the Board of Supervisors, female, was born in February 1958. She holds a bachelor's degree and is a senior accountant. She served as Deputy Head of the General Planning Division, Deputy Head and Head of the Debt Division, Deputy Director General and Member of Leading Party Group of Beijing Municipal Bureau of Finance, General Manager and Secretary of the Party Committee of Beijing Securities Co., Ltd., Deputy Secretary and Secretary of the Beijing Finance Working Committee, Head of the Finance Office of Beijing Municipal Government, Chairman of the Board of Supervisors, Deputy Secretary of the Party Committee and Secretary of the Party Discipline Committee of Hua Xia Bank. She currently serves as Chairman of the Board of Supervisors and Deputy Secretary of the Party Committee of Hua Xia Bank.

Li Liangang, Supervisor, male, was born in May 1968. He holds a bachelor's degree and is a senior economist. He used to be Deputy General Manager of the Finance Department of Shandong Office, and General Manager of the Shandong Securities Operations Department of China New Technology Venture Capital Company, Head of the Corporate Banking Division of Jinan Branch of Hua Xia Bank Co., Limited, Deputy Director of the Board of Directors' Office, Director of the Board of Directors' Office and Director of the President's Office, Director, Secretary of the Board of Directors and Chief Financial Officer of Runhua Group. Now, he is an employee of Runhua Group Co., Ltd.

Tian Ying, Supervisor, female, was born in April 1965. She holds a master's degree and is a senior accountant. She previously taught at Beijing Finance College and was Manager of the Fund and Finance Department, Chief Accountant and Deputy General Manager of Beijing Sanjili Energy Co., Ltd. and Chairman of Huaxing Power Co., Ltd. Now, she is Chairman of Huaxing Power Co., Ltd.

Cheng Chen, Supervisor, female, was born in March 1975. She holds an EMBA degree. She previously served as Deputy General Manager of Shanghai Giant Biotech Co., Ltd. Now, she is Vice General Manager of Giant Investment Co., Ltd. and Chairman of Green Giant Energy Co., Ltd.

Zhu Wei, External Supervisor, male, was born in August 1965. He holds a master's degree and is a senior economist and Chinese CPA. He was ever Deputy Division Chief of Industrial Transportation Department and Economic and Trade Department of the Ministry of Finance, Director and Deputy General Manager of Zhong Sheng Environmental Protection Technology Development and Investment Co., Ltd. Now, he is Chief Partner of Jonten Certified Public Accountants.

Lin Xin, External Supervisor, male, was born in October 1966. He is a PhD and lawyer. He previously was a lawyer at China Legal Affairs Center. Now, he is Partner of Beijing Zhongming Law Firm.

Wu Changqi, External Supervisor, male, was born in June 1955. He holds a PhD degree and is a professor. He was Director of the Center of Executive Master of Business Administration (EMBA) Degree Program and Vice Dean of the Guanghua School of Management of Peking University and a part-time professor of HKUST Business School. Now, he is a professor teaching strategic management at the Guanghua School of Management of Peking University, Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University, Director of Guanghua Leadership Research Institute of Peking University and Executive Vice Director of International Operation & Management Research Institute of Peking University.

Ma Yuanju, External Supervisor, male, was born in March 1957. He is a PhD and professor. He taught accounting and did scientific research work at Zhuhai Radio & TV University. Now, he is a professor at the Accounting School of Capital University of Economics and Business.

Sun Tongjun, Employee Supervisor, male, was born in November 1961. He holds a master's degree and is a senior economist. He served as Head and Party Committee Secretary of Agricultural Bank of China Penglai Sub-branch and Vice Head and Party Committee Member of Agricultural Bank of China Yantai Branch. When he joined Hua Xia Bank, he was successively Head and Party Committee Secretary of Yantai Sub-branch, Head and Party Committee Secretary of Shenyang Branch and Head and Party Committee Secretary of Ji'nan Branch. Now, he is Employee Supervisor, Internal Control & Compliance Director and General Manager of Internal Control & Compliance Department of Hua Xia Bank.

Li Qi, Employee Supervisor, male, was born in August 1958. He holds a bachelor's degree and is a senior economist. He once was a teacher of the Law Department of Shandong University, Deputy General Manager of Rural Credit Cooperative of China in Shandong and Deputy General Manager of Shandong Yingtai Group Corporation. He took several positions in Hua Xia Bank, including Head of the Audit and Compliance Department of Ji'nan Branch, Member of the Discipline Inspection Committee, General Manager of Legal Affairs Department and Special Assets Resolution Department, Secretary of the Party Committee and General Manager of Chongqing Branch, Employee Supervisor, General Manager of Audit Department and Member of the Discipline Inspection Committee, as well as Employee Supervisor, General Manager Candidate of Audit Department and Member of the Discipline Inspection Committee of Hua Xia Bank. He currently serves as Employee Supervisor and Member of the Discipline Inspection Committee of Hua Xia Bank.

Wang Liying, Employee Supervisor, female, was born in May 1962. She holds a bachelor's degree and is a senior accountant. She was ever Deputy Director of Taiyuan Audit Office of Shanxi Branch of China Construction Bank, Chief of Budget and Finance Division & Director of Bills Center of Taiyuan Sub-branch of Hua Xia Bank, Vice President and Member of Party Committee of Taiyuan Branch of Hua Xia Bank, Vice President and Member of Party Committee of Tianjin Branch of Hua Xia Bank, Deputy General Manager and General Manager of Compliance Department of Hua Xia Bank, as well as Employee Supervisor, Director of Inspection Office and Deputy Secretary of the Party Discipline Committee of Hua Xia Bank. She currently serves as Employee Supervisor of Hua Xia Bank.

Li Xiang, Vice President, male, was born in December 1957. He holds a master's degree and is a senior economist. He served as Secretary of deputy division level of General Office of Jiangsu Provincial Government and took several positions in Hua Xia Bank, including Head of the Banking Department, Deputy General Manager and Member of the Leading Party Group, General Manager and Secretary of the Leading Party Group (the Party Committee) of Nanjing Branch, and Assistant to President (concurrently General Manager of the Corporate Banking Department) of Hua Xia Bank. He currently serves as Vice President and Member of the Party Committee of Hua Xia Bank.

Guan Wenjie, Vice President and Principal of Financial Affairs, male, was born in October 1970. He holds a master's degree and is a senior accountant. He was once Deputy Chief (in charge of specific work) and Chief of Budget & Finance Division of Qingdao Sub-branch of Hua Xia Bank, General Manager of Budget & Finance Department of Qingdao Branch of Hua Xia Bank, Vice General Manager and Member of Party Committee of Qingdao Branch of Hua Xia Bank, General Manager and Secretary of Party Committee of Qingdao Branch of Hua Xia Bank, General Manager of Accounting Department of Hua Xia Bank, Principal of Financial Affairs and General Manager of Budget and Finance Department of Hua Xia Bank, Principal of Financial Affairs, CFO, General Manager of Budget and Finance Department and General Manager of Financial Markets Department of Hua Xia Bank. Now, he is Vice President, Principal of Financial Affairs, CFO, General Manager of Budget and Finance Department of Hua Xia Bank.

Name	Position or concurrent position in other entities excluding shareholder entities
Li Ruge	Chief Accountant and Member of Leading Party Group of State Grid Corporation of China
Fan Dazhi	None
Wang Hongjun	Director of Beijing Shougang Fund Co., Ltd., Director of Beijing Shougang Co., Ltd., Chairman of Shougang Group Finance Co., Ltd.
Li Jianbo	Chairman of Hongta Securities Co., Ltd., Chairman of Hongta Innovation Investment Co., Ltd., Chairman of Yunnan Hongta Dianxi Cement Co., Ltd., Vice Chairman of Huaneng Lancang River Hydropower Co., Ltd.
Liu Chunhua	None
Ren Yongguang	Chairman of Huaxia Financial Leasing Co., Ltd., Supervisor of China UnionPay Co., Ltd.
Zhao Junxue	None
Ding Shilong	Secretary General of Enterprise Management Association of SGCC
Zou Libin	Director of Beijing Jingxi Venture Capital Fund Management Co., Ltd., Director of Beijing Shougang Construction Investment Co., Ltd., Director of Shougang Shuicheng Iron & Steel (Group) Co., Ltd., Supervisor of Beijing Shougang Fund Co., Ltd., Supervisor of China Bond Insurance Corporation, Director of Shougang Group Finance Co., Ltd.
Zeng Xiangquan	Professor of the School of Labor and Human Resources, Renmin University of China, Independent Director of Beijing Science Park Development (Group) Co., Ltd., Independent Director of China Film Group Corporation
Yu Changchun	Professor of Beijing National Accounting Institute, Independent Director of China National Heavy Duty Truck Group Co., Ltd., Executive Member of Accounting Society of China, Executive Member of China Cost Research Society
Xiao Wei	Director and Partner of Beijing Jun He Law Offices
Chen Yonghong	Partner of Baker Tilly China Certified Public Accountants, Chairman of Tianzhi Engineering Project Management Co., Ltd., Independent Director of China United Network Communications Limited, Independent Director of Inner Mongolia Jinyu Group Corporation Limited
Yang Delin	Professor of Tsinghua University School of Economics and Management, Independent Director of Changjiang Publishing & Media Co., Ltd., Deputy Secretary General of Chinese Society of Technology Economics, Executive Vice Chairman of Chinese Institute of Business Administration

Name	Position or concurrent position in other entities excluding shareholder entities
Wang Huacheng	Professor of School of Business of Renmin University of China
Cheng Yanhong	None
Li Liangang	Director of Shandong Juya Environmental Protection Co., Ltd.
Tian Ying	Chairman of Huachen Energy Co., Ltd., Vice Chairman of Zhangjiagang Shazhou Power Co., Ltd., Director of Zhangjiagang Huaxing Power Co., Ltd., Chairman of Zhoukou Longda Power Generation Co., Ltd., Chairman of Huachen Energy Sales Co., Ltd.
Cheng Chen	Vice General Manager of Giant Investment Co., Ltd., Chairman of Green Giant Energy Co., Ltd., Director of Guangxi Beibu Gulf Bank Co., Ltd., Supervisor of Linzhi Minsheng Village Bank
Zhu Wei	Chief Partner of Jonten Certified Public Accountants
Lin Xin	Partner of Beijing Zhongming Law Firm
Wu Changqi	Professor teaching strategic management at the Guanghua School of Management of Peking University, Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University, Director of Guanghua Leadership Research Institute of Peking University, Executive Vice Director of International Operation & Management Research Institute of Peking University, Non-executive Director of Qingdao Haier Co., Ltd., Independent Director of Beijing Electronics Zone Investment and Development Co., Ltd., Independent Director of Tianjin Keyvia Electric Co., Ltd.
Ma Yuanju	Professor at the Accounting School of Capital University of Economics and Business, Independent Director of Sound Global Limited, Independent Director of Jinhe Biotechnology Co., Ltd.
Sun Tongjun	None
Li Qi	Chairman of the Board of Supervisors of Daxing Hua Xia Village Bank, Chairman of the Board of Supervisors of Jiangyou Hua Xia Village Bank, Chairman of the Board of Supervisors of Chenggong Hua Xia Village Bank
Wang Liying	None
Li Xiang	None
Guan Wenjie	Director of Huaxia Financial Leasing Co., Ltd.

iv. Remunerations of directors, supervisors and senior management members during the reporting period

1. Decision-making procedures for remunerations of directors, supervisors and senior management members

The Remuneration and Assessment Committee of the Board of Directors examines annual allowances of directors and supervisors in accordance with the Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors and in combination with the annual duty performance of directors and supervisors. Relevant announcement is published after review and approval of the Board of Directors.

The Remuneration and Assessment Committee of the Board of Directors studies and proposes bonus allocation plan for senior management members in accordance with the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank and the Working Process of Remunerations and Annual Appraisals of Head Office-level Senior Management of Hua Xia Bank* and in combination with the completion of the Company's major business indicators, the annual appraisal results of senior management and the upper-level department's policy on remuneration management. Annual appraisal results and remunerations of senior management members are announced after review and approval of the Board of Directors. In 2016, remunerations of senior management members of the Company that fall into the remuneration management scope of officers of SOEs governed by Beijing Municipal Government were managed in accordance with the Beijing Municipal Government's policy on remuneration reform of officers of municipal SOEs.

The Remuneration and Assessment Committee of the Board of Directors has examined remuneration data of directors, supervisors and senior management members to be disclosed in the Annual Report 2016 of the Company. In the opinion of the committee, the remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2016 of the Company comply with relevant assessment system and remuneration management policy of the Company, and are paid in overall consideration of the prevailing economic conditions, control policies of China and Beijing as well as actual operation of the Company and its peers, and the disclosure meets requirements of relevant laws and regulations.

2. Basis for determining remunerations of directors, supervisors and senior management members

Remunerations of directors and supervisors are determined on the basis of the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors* and remunerations of senior management members are determined on the basis of the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank* and the policy of Beijing Municipal Government on the reform of remunerations of officers of municipal SOEs.

3. Remunerations payable to directors, supervisors and senior management members

Please refer to the "Changes in shares held by directors, supervisors and senior management members and their remunerations" in this Section for details.

4. Total remunerations actually paid to directors, supervisors and senior management members at the end of the reporting period

At the end of the reporting period, RMB11,484,400 (before tax) was actually paid to all of the directors, supervisors and senior management members.

v. Changes in directors, supervisors and senior management members of the Company

On 29 January 2016, the Board of Directors of the Company received a written resignation report from Mr. Christian K. Ricken. Mr. Christian K. Ricken resigned from the posts of the Company's director and member of relevant committees of the Board of Directors due to personal reason.

On 13 May 2016, Mr. Wang Hongjun was elected to the Board of Directors of the Company at the 2015 Annual General Meeting. The qualification of Mr. Wang for serving in the Board of Directors was approved by CBRC on 30 November 2016.

On 30 August 2016, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Engaging Vice Presidents* at its 21st Meeting, according to which Mr. Guan Wenjie and Mr. Wang Yiping were engaged as vice president of the Company. The qualification of Mr. Guan and Mr. Wang for serving as vice president was approved by CBRC on 24 January 2017.

On 28 October 2016, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Engaging Vice President* at its 22nd Meeting, according to which Mr. Lu Guoyi was engaged as vice president of the Company. The qualification of Mr. Lu for serving as vice president was approved by CBRC on 20 March 2017.

On 31 October 2016, the Board of Directors of the Company received written resignation reports from Mr. Zeng Xiangquan and Mr. Yu Changchun. Mr. Zeng and Mr. Yu have served as independent director of the Company for six consecutive years and they resigned from this post according to the regulatory policy on term of serving as independent director of a listed company. Since the resignation of Mr. Zeng and Mr. Yu caused the number of independent directors in the Board of Directors of the Company to become less than the quorum, the two will continue to carry out the functions and powers of an independent director in accordance with laws and regulations and the Articles of Association before the independent directors newly elected at the general meeting take office.

On 18 November 2016, the Board of Directors of the Company received a written resignation report from Mr. Robert Vogtle. Because DB Group has sold all of the shares it held in the Company, Mr. Robert Vogtle resigned from the posts of the Company's director and member of relevant committees of the Board of Directors.

On 1 December 2016, the Board of Directors of the Company received a written resignation report from Mr. Wu Jian. Mr. Wu Jian resigned from the posts of the Company's chairman, director and member of relevant committees of the Board of Directors due to his age.

On 6 December 2016, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Electing Mr. Fan Dazhi Chairman of the Bank* at its 24th meeting, and Mr. Fan Dazhi was elected Chairman of the Bank. The qualification of Mr. Fan for chairing the Board of Directors is to be approved by CBRC.

On 5 January 2017, the Board of Directors of the Company received a written resignation report from Mr. Fan Dazhi. Mr. Fan Dazhi resigned from the post of president of the Company due to work engagement.

On 18 January 2017, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Engaging President* at its 26th Meeting, according to which Mr. Zhang Jianhua was engaged as president of the Company. The qualification of Mr. Zhang for serving as president was approved by CBRC on 14 April 2017.

On 7 March 2017, the Board of Directors of the Company received a written resignation report from Mr. Fan Dazhi. Mr. Fan Dazhi resigned from the posts of the Company's chairman, director and member of relevant committees of the Board of Directors due to work engagement.

On 29 March 2017, the First Extraordinary General Meeting of the Company in 2017 reviewed and approved the Proposal on Electing Director of the Bank, according to which Mr. Lin Zhiyong, Mr. Zhang Wei, Mr. Li Minji and Mr. Zhang Jianhua were elected into the Board of Directors of the Company. The qualification of Mr. Lin Zhiyong and Mr. Zhang Wei for serving in the Board of Directors is to be approved by CBRC. The qualification of Mr. Li Minji and Mr. Zhang Jianhua for serving in the Board of Directors was approved by CBRC on 14 April 2017.

On 29 March 2017, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Electing Chairman* at its 29th meeting, and Mr. Li Minji was elected Chairman of the Bank. The qualification of Mr. Li to chair the Board of Directors was approved by CBRC on 14 April 2017.

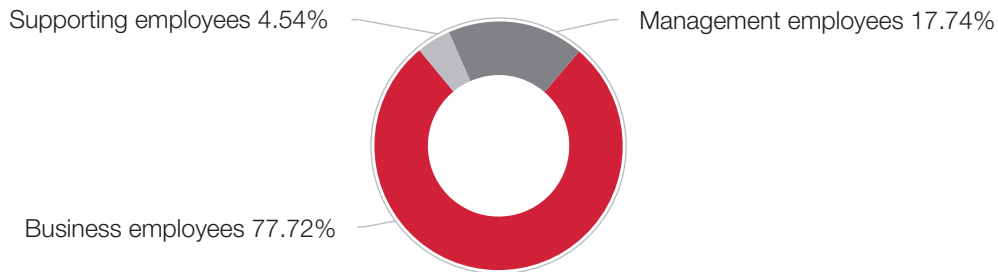
vi. Penalties imposed on directors, supervisors and senior management members of the Company by securities regulatory authority in the past three years

Not applicable.

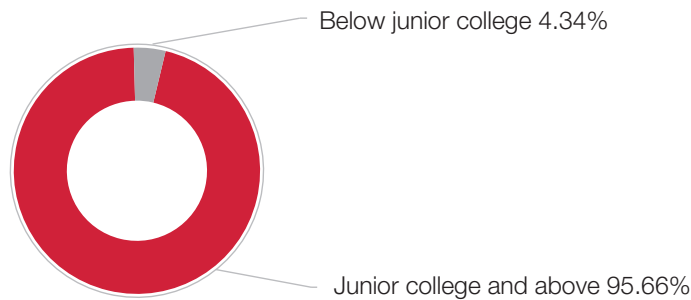
II. EMPLOYEES

At the end of the reporting period, the Group had 39,354 service employees, including 39,098 ones working in the Company and 256 ones working in the major subsidiaries. The Group paid for 441 retired employees.

i. The Company's employees by professional field



ii. The Company's employees by educational background



iii. Remuneration policy and training plan of the Company

During the reporting period, according to the bank-wide development strategy and operation targets, the Company constantly improved performance management system, focused on capital constraints and operational benefits, stepped up risk & compliance management, promoted operational transformation and structural adjustment and enhanced incentive and restrictive role of remuneration.

The Company actively promoted the building of a learning organization, continued to improve the tiered and specialized talent cultivation system, broadened the ways of training, introduced innovative training methodology and paid attention to enhancing the effectiveness of training and raising the quality and comprehensive capabilities of employees.

SECTION IX CORPORATE GOVERNANCE

I. CORPORATE GOVERNANCE PRACTICE

The Company earnestly implements regulatory requirements on corporate governance, continuously improves corporate governance framework, brings more discipline to the operation of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management in accordance with the *Company Law*, the *Commercial Bank Law*, the *Securities Law*, the *Governance Standards of Listed Companies*, the *Guidelines on Corporate Governance of Commercial Banks*, the *Guidelines on the Work of the Board of Supervisors of Commercial Banks* and other relevant laws and regulations. The core objective is to maximize shareholders' long-term value on the premise of respecting and protecting the interests of depositors. The actual condition of corporate governance has no material discrepancies with the normative documents on governance of listed companies released by CSRC.

During the reporting period, the Board of Directors of the Company revised the *Rules for Qualification and Selection & Appointment Procedures of Directors and Senior Management Members of Hua Xia Bank (Trial)* and the *Rules for Qualification and Selection & Appointment Procedures of Supervisors of Hua Xia Bank (Trial)* according to the laws, regulations and policies newly issued by regulatory authorities and in combination with the actual management of the Company. The above-mentioned revisions have been approved by the Shareholders' General Meeting.

II. BRIEFING OF THE SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company called and held one general meeting and adopted 17 resolutions in strict accordance with the Rules on the Shareholders' General Meetings of Listed Companies, the Articles of Association and the procedural rules on the Shareholders' General Meeting. The Company established and improved effective channels of communication with shareholders, increased representation of public shareholders at the general meetings through online voting and ensured equality of shareholders and their full exercise of rights, including the rights to be informed of, participate in and vote on significant matters of the Company.

General Meeting	Date	Website designated for publishing resolutions	Disclosure date
Annual General Meeting for 2015 of Hua Xia Bank Co., Limited	13 May 2016	http://www.sse.com.cn	14 May 2016

III. DUTY PERFORMANCE OF THE DIRECTORS

i. Attendance of directors at board meetings and General Meeting

Director	Independent Director (Yes/no)	Attendance at Board Meeting						Attendance at General Meeting
		Board meetings to be attended this year	Meetings attended in person	Meetings attended by correspondence	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes/no)	General Meeting attended
Li Ruge	No	11	9	5	2	0	No	0
Fan Dazhi	No	11	10	5	1	0	No	1
Wang Hongjun	No	3	3	2	0	0	No	/
Li Jianbo	No	11	9	5	2	0	No	0
Liu Chunhua	No	11	11	5	0	0	No	1
Ren Yongguang	No	11	11	5	0	0	No	0
Zhao Junxue	No	11	11	5	0	0	No	1
Ding Shilong	No	11	10	5	1	0	No	0
Zou Libin	No	11	11	5	0	0	No	1
Zeng Xiangquan	Yes	11	11	5	0	0	No	1
Yu Changchun	Yes	11	11	5	0	0	No	1
Xiao Wei	Yes	11	11	5	0	0	No	0
Chen Yonghong	Yes	11	11	5	0	0	No	1
Yang Delin	Yes	11	11	5	0	0	No	0
Wang Huacheng	Yes	11	11	5	0	0	No	0
Wu Jian	No	10	10	4	0	0	No	1
Christian K. Ricken	No	0	0	0	0	0	No	/
Robert Vogtle	No	8	8	4	0	0	No	0
Number of Board meetings held this year		11						
Of which: Number of onsite meetings		6						
Number of meetings held by correspondence		5						

ii. Dissents of Independent Directors on relevant issues of the Company

During the reporting period, Independent Directors did not raise any dissents on relevant issues of the Company.

During the reporting period, there were six Independent Directors on the Board of Directors of the Company, accounting for over one third of its members. They earnestly attended meetings and reviewed proposals, performed the role of conveners for the Risk and Compliance Management Committee, the Related Party Transactions Control Committee, the Nomination Committee, the Remuneration and Assessment Committee and the Audit Committee and gave professional opinions on strategic management, comprehensive risk management, capital management, related party transactions management, profit distribution, internal control improvement, senior management engagement and performance of duties, among other corporate governance and operational management activities, on an independent basis in the interest of depositors and minority shareholders pursuant to laws, regulations and the Articles of Association.

IV. IMPORTANT OPINIONS AND SUGGESTIONS PROPOSED BY SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS WHEN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD

During the reporting period, all special committees of the Board of Directors operated in a well-disciplined manner and diligently performed their duties.

The Strategy Committee held three meetings and reviewed the proposals relating to the Committee's annual work plan, the report on implementation of 2013-2016 development program, the report on implementation of green credit, the report on consumer protection in 2015 and relevant work proposals for 2016 and the CAR information disclosure management measures (provisional).

The Risk and Compliance Management Committee held three meetings and reviewed the proposals relating to the Committee's annual work plan, the report on risk management in 2015, the annual risk management strategy, the matters concerning building of credit risk internal rating system, the capital and liquidity management policy, the consolidated management measures (trial), the report on market risk management in 1H 2016, the report on liquidity risk management in 1H 2016, the comprehensive risk management policy and the stress testing management measures.

The Related Party Transactions Control Committee held one meeting and reviewed the proposals relating to the Committee's annual work plan, the report on implementation of related party transactions management system and related party transactions, as well as limit of connected lending to Shougang Corporation and its related enterprises, State Grid Yingda International Holdings Corporation, Ltd. and its enterprises, Hongta Group and its related enterprises, and Huaxia Financial Leasing Co., Ltd..

The Nomination Committee held four meetings and reviewed the proposals relating to the Committee's annual work plan, the revisions to the rules for qualification and selection & appointment procedures of directors and senior management members of Hua Xia Bank, the appointment of new vice president and the review of qualification of independent director/director candidates.

The Remuneration and Assessment Committee held two meetings and reviewed the proposals relating to the Committee's annual work plan, the 2015 assessment of senior management members, the bonus pool for Head Office-level senior management members in 2015, the plan on bonus distribution to Head Office-level senior management members in 2015, the return of risk security deposits to Head Office-level senior management members and the disclosure of remunerations of directors, supervisors and senior management members in the Annual Report 2015. The Committee appraised the duty performance of senior management members in 2015.

The Audit Committee held five meetings and reviewed the proposals relating to the Committee's annual work plan, the Company's regular reports, the rules for annual assessment of employees of the Committee (revised), the report on duty performance of the Committee in 2015, the final accounts report in 2015, the profit distribution plan in 2015, the 2016 budget report, the 2015 auditor's report under International Accounting Standards, the engagement and remuneration of accounting firm in 2016, the internal audit work report in 2015, the internal audit work plan in 2016, the 2015 internal control assessment report, the auditor's report on internal control in 2015, the report on internal audit work in 1H 2016, the internal control assessment plan for 2016, the review of qualification of candidate for general manager of the Audit Department and the 2016 performance contract of the Audit Department.

V. EXPLANATION ON THE DETECTION OF THE COMPANY'S RISK EXPOSURES BY THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors supervised duty performance of the Company's directors and senior management members, financial decisions and their implementation, internal control construction and risk management, having no dissents on those matters under supervision.

During the reporting period, the Board of Supervisors held five meetings and adopted 17 resolutions covering the Company's regular reports, financial statements, special inspection reports, internal control assessment report and social responsibility report in accordance with the Articles of Association of the Company and the procedural rules on the Board of Supervisors. It launched nine inspections and surveys, including talk with the senior management, supervision on and inspection of duty performance by directors and senior management members, survey on internal audit work, inspection of handling of rule-breaking or law-breaking cases of the whole bank, inspection of the Company's implementation of the *2013-2016 Plan for All-around Internal Control Building*, the follow-up research into reform of the Company's wealth management business operation system, review of the *Report by Strategic Development Department on the Bank's Progress in 2013-2016 Development Program and the Preparation of New Program*, the *Report by SME Finance Department on Improvement of Marketing System Development and Promotion*, the *Report by Budget and Finance Department on Consolidated Management*, the *Report by Risk Management on Consolidated Management* and the *Report by Huaxia Financial Leasing Co., Ltd. on Consolidated Management*. All Supervisors diligently worked, adequately attended meetings as required, performed supervisory functions pursuant to laws, regulations and the Articles of Association, and organized and participated in special inspections with due diligence. External Supervisors adequately attended meetings, earnestly reviewed proposals and gave independent opinions with due diligence pursuant to laws, regulations and the Articles of Association. They played the role of convener for special committees and organized and participated in special inspections and investigations of the Board of Supervisors.

VI. EXPLANATION ON INABILITY TO ENSURE INDEPENDENCE OR INDEPENDENT OPERATION IN THE ASPECTS OF BUSINESS, PERSONNEL, ASSET, INSTITUTION AND FINANCE BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDER

Not applicable.

VII. ASSESSMENT MECHANISM WITH RESPECT TO THE SENIOR MANAGEMENT MEMBERS AS WELL AS ESTABLISHMENT AND IMPLEMENTATION OF THE INCENTIVE MECHANISM DURING THE REPORTING PERIOD

The Company engages senior management members through external recruitment and internal selection. Senior management members are appointed by the Board of Directors and their qualifications shall be submitted to CBRC for review. Senior management members are overseen in respect of any violation of laws, regulations or the Articles of Association or any misconduct against corporate interests. In addition to an order of correction issued, such violations and misconducts will be reported to the Shareholders' General Meeting or competent authorities of the State where necessary.

During the reporting period, the Remuneration and Assessment Committee of the Board of Directors assessed duty performance of senior management members in 2015 in accordance with the *Measures for Annual Assessment of Head Office-level Senior Management Members of Hua Xia Bank*, including fulfillment of main annual operating indicators of the Company determined by the Board of Directors, performance indicators of senior management members by business/field in charge and directors' appraisals. Senior management members were assessed on the following principles: ensuring realization of planned objectives under the guidance of the development program; combining quantitative and qualitative indicators based on key performance indicators; representing duty matching, deferred payment and risk deduction, considering both team and personal performance of the Senior Management. The Remuneration and Assessment Committee proposed bonus allocation plan for senior management members in accordance with the *Administrative Measures for Remunerations of Head Office-level Senior Management Members of Hua Xia Bank* and the Beijing Municipal Government's policy on remuneration reform of officers of municipal SOEs. Besides, the Board of Supervisors and its Supervision Committee assessed performance of duties by senior management members in compliance with laws and regulations in 2015. Assessment results of the Remuneration and Assessment Committee and appraisals of the Board of Supervisors constitute an important basis for performance assessment of senior management members and incentive and restrictive decisions related to senior management members.

VIII. INFORMATION DISCLOSURE AND INVESTOR RELATIONS MANAGEMENT

The Company regulates day-to-day information disclosures pursuant to the State's laws and regulations, regulatory provisions and the Company's policies to effectively protect investors' right to know, ensure authenticity, accuracy, completeness and timeliness of the information disclosed and safeguard investors' interests. During the reporting period, the Company prepared and disclosed four regular reports and 30 interim reports and informed the investors of such significant information as financial data, related party transactions and profit distribution plan on a timely basis.

During the reporting period, the Company further deepened investor relations management. It maintained routine contacts and communications with investors via telephone, fax and email and held regular meetings with investors and analysts to inform them of the Company's business results, connotation and values of the Company so that the market could have a further understanding of the Company and the investors enhance their recognition of the Company's value. The Company diversified the approaches of communication with investors. It held online explanatory session on cash dividend distribution to describe the cash dividend plan and related matters to investors. In this way, the Company managed to broaden the communication channels with investors and improved the transparency of information disclosure and the management level of investor relations. Besides, the Company fully availed of SSE E Platform to have online exchanges with investors and carefully answer their questions, thereby promoting a benign interaction with the capital market.

IX. REPORT ON THE INTERNAL CONTROL SELF-ASSESSMENT

The Board of Directors of the Company assessed the effectiveness of the Company's internal control as at 31 December 2016 in line with the requirements of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, as well as the *Guidelines for Internal Control of Commercial Banks*. In the opinion of the Board of Directors, the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the requirements of the system of enterprise internal control standards and relevant regulations. During the reporting period, the Company had not any significant or material deficiencies of internal control over financial reporting, nor did it discover any significant or material deficiencies of internal control over non-financial reporting. For details, please refer to the *2016 Internal Control Assessment Report of Hua Xia Bank Co., Limited* disclosed by the Company on the website of Shanghai Stock Exchange (www.sse.com.cn) and the website of the Company (www.hxb.com.cn).

X. EXPLANATION ON AUDITOR'S REPORT ON INTERNAL CONTROL

The Company invited Deloitte Touche Tohmatsu Certified Public Accountants LLP to perform an audit of the effectiveness of internal control over financial reporting of the Company in accordance with the requirements of the *Basic Standard for Enterprise Internal Control* and the *Guideline for Enterprise Internal Control Audit*. The auditor deems that the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. For details, please refer to the *Internal Control Audit Report of Hua Xia Bank Co., Limited* disclosed by the Company on the website of Shanghai Stock Exchange (www.sse.com.cn) and the website of the Company (www.hxb.com.cn).

SECTION X FINANCIAL STATEMENTS

I. Auditor's Report (see Appendix)

II. Financial Statements (see Appendix)

III. Changes in Accounting Policies and Estimates and Corrections of Accounting Errors during the Reporting Period

Not applicable.

SECTION XI LIST OF DOCUMENTS FOR INSPECTION

- I. Accounting Statements Bearing Seals and Signatures of the Legal Representative, President, and Principal of Financial Affairs.
- II. Original of the Auditor's Report Bearing Common Seal of the Accounting Firm and Seals and Signatures of CPAs.
- III. Original of the Annual Report Bearing the Signature of Chairman of the Company.
- IV. Originals of All Documents and Announcements Disclosed by the Company on the China Securities Journal, Shanghai Securities News and Securities Times during the Reporting Period. And
- V. The Articles of Association of Hua Xia Bank Co., Limited.

Chairman: Li Minji

Board of Directors of Hua Xia Bank Co., Limited

27 April 2017

WRITTEN CONFIRMATION OF THE ANNUAL REPORT 2016 BY DIRECTORS AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED

Pursuant to relevant provisions and requirements of the *Securities Law* and the *Standards Concerning the Contents and Formats of Information Disclosure by Companies that Offer Securities to the Public No. 2 – Contents and Formats of Annual Reports (Revision 2016)*, we, in the capacity of Directors and Senior Management Members of Hua Xia Bank Co., Limited, after a full understanding and review of the Annual Report 2016 of the Company and its summary, are in the opinion that:

1. The Company operates in strict compliance with the Accounting Standards for Business Enterprises and its application guidelines; the Annual Report 2016 of the Company and its summary present the financial position and operating results of the Company during the reporting period in a fair way.

2. The Auditor's Report 2016 of Hua Xia Bank Co., Limited issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP is true, objective and impartial.

We undertake that the information contained in the Annual Report 2016 of the Company and its summary is authentic, accurate and complete without any false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information herein.

27 April 2017

Name	Position	Signature
Li Minji	Chairman	
Li Ruge	Vice Chairman	
Zhang Jianhua	Director, President	
Wang Hongjun	Director	
Li Jianbo	Director	
Liu Chunhua	Director, CAO	
Ren Yongguang	Director, Vice President	

Name	Position	Signature
Zhao Junxue	Director, Secretary to the Board of Directors	
Ding Shilong	Director	
Zou Libin	Director	
Zeng Xiangquan	Independent Director	
Yu Changchun	Independent Director	
Xiao Wei	Independent Director	
Chen Yonghong	Independent Director	
Yang Delin	Independent Director	
Wang Huacheng	Independent Director	
Li Xiang	Vice President	
Lu Guoyi	Vice President	
Guan Wenjie	Vice President, Principal of Financial Affairs	
Wang Yiping	Vice President	

AUDIT REPORT

D.SH.B. (SH) Z. (17) No. P02238

To the shareholders of Hua Xia Bank Co., Limited,

We have audited the financial statements of Hua Xia Bank Co., Limited (the “Bank”), which comprise bank and consolidated balance sheet as at 31 December 2016, bank and consolidated income statement, bank and consolidated statement of cash flows and bank and consolidated statement of changes in equity for the year then ended and notes to these financial statements.

I. The Management’ Responsibility for the Financial Statements

The Management of the Bank is responsible for the preparation and fair presentation of these financial statements. These responsibilities include (1) preparing the financial statements that give a true and fair view in accordance with the Accounting Standard for Business Enterprises; and (2) designing, implementing and maintaining necessary internal control to ensure that financial statements are free from material misstatement, whether due to fraud or error.

II. Certificated Public Accountants’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards for Chinese Certified Public Accountants. Those standards require us to comply with the ethical requirements set for Certified Public Accountants of Chinese Institute of Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment on the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, certified public accountants consider internal control relevant to the institution’s preparation and fair presentation of financial statements in order to design appropriate audit procedures. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

III. Audit Opinion

In our opinion, the financial statements of the Bank comply with the requirements of the Accounting Standards for Business Enterprises in all material respects and present fairly the bank and consolidated financial position as at 31 December 2016 and the bank and consolidated operating results and cash flows for the year then ended.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
(special general partnership)

Certified Public Accountants
Registered in China

Shanghai, China
27 April 2017

Fan Lihong
Li Jie

BANK AND CONSOLIDATED BALANCE SHEET

31 December 2016

(In RMB millions, unless otherwise stated)

	Note VIII	The Group		The Bank	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Assets					
Cash on hand and balances with central banks	1	222,173	264,094	221,456	263,832
Due from banks and other financial institutions	2	133,780	49,494	133,663	48,994
Placements with banks and other financial institutions	3	15,868	30,972	15,868	30,972
Financial assets designated at fair value through profit or loss	4	4,939	11,872	4,939	11,872
Derivative financial assets	5	803	191	803	191
Financial assets held under resale agreements	6	122,032	245,297	122,032	245,297
Interest receivables	7	13,807	10,603	13,796	10,592
Loans and advances to customers	8	1,184,355	1,041,937	1,139,301	1,004,855
Available-for-sale financial assets	9	92,252	73,200	92,252	73,200
Held-to-maturity investments	10	345,593	194,543	345,593	194,543
Account receivable held for investment	11	197,378	77,460	196,478	77,460
Long-term equity investment	12	–	–	2,630	2,630
Fixed assets	13	11,372	11,252	11,341	11,218
Intangible assets	14	84	87	83	85
Deferred income tax assets	15	5,984	4,570	5,780	4,485
Other assets	16	5,815	5,032	5,426	4,595
Total assets		2,356,235	2,020,604	2,311,441	1,984,821

BANK AND CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2016

(In RMB millions, unless otherwise stated)

	Note VIII	The Group		The Bank	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Liabilities					
Due to central banks	18	108,005	30,027	108,000	30,000
Due to banks and other financial institutions	19	225,133	270,200	226,211	273,508
Placements from banks and other financial institutions	20	73,130	64,141	37,377	33,646
Derivative financial liabilities	5	1,093	169	1,093	169
Repurchase agreements	21	106,696	80,491	106,696	80,491
Deposits taken	22	1,368,300	1,351,663	1,366,008	1,350,000
Accrued payroll	23	8,157	7,525	8,052	7,448
Taxes and dues payable	24	5,454	4,383	5,313	4,326
Interest payable	25	14,655	15,681	14,294	15,433
Debt obligations payable	26	268,184	66,893	268,184	66,893
Other liabilities	27	24,455	11,043	18,885	5,731
Total liabilities		2,203,262	1,902,216	2,160,113	1,867,645
Equity					
Share capital	28	10,686	10,686	10,686	10,686
Other equity instruments	29	19,978	-	19,978	-
Of which: Preference shares		19,978	-	19,978	-
Capital reserve	30	28,762	28,762	28,761	28,761
Other comprehensive income	43	22	1,292	22	1,292
Surplus reserve	31	9,771	7,913	9,771	7,913
General reserve	32	24,605	21,451	24,269	21,427
Retained profit	33	58,360	47,574	57,841	47,097
Total equity attributable to shareholders of the parent company		152,184	117,678	151,328	117,176
Minority shareholders' equity		789	710	-	-
Total shareholders' equity		152,973	118,388	151,328	117,176
Total liabilities and equity		2,356,235	2,020,604	2,311,441	1,984,821

The accompanying notes are an integral part of these financial statements

The financial statements on pages 112-227 are signed by:

Legal representative:
Li Minji

President:
Zhang Jianhua

Principal of Financial Affairs:
Guan Wenjie

Seal

BANK AND CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

(In RMB millions, unless otherwise stated)

	Note VIII	The Group		The Bank	
		2016	2015	2016	2015
I. Operating income		64,025	58,844	62,652	57,901
Net interest income	34	48,989	46,083	48,176	45,468
Interest income		88,242	91,324	86,191	89,461
Interest expense		(39,253)	(45,241)	(38,015)	(43,993)
Net fee and commission income	35	14,656	12,372	14,103	12,092
Fee and commission income		16,124	13,435	15,551	13,131
Fee and commission expenses		(1,468)	(1,063)	(1,448)	(1,039)
Investment gains/(losses)	36	717	122	717	122
Gains/(losses) from the changes in fair value	37	(494)	65	(494)	65
Exchange gain	38	130	128	130	128
Other operating income		27	74	20	26
II. Operating expenses		(37,906)	(33,910)	(37,084)	(33,433)
Taxes and surcharges	39	(1,941)	(4,446)	(1,880)	(4,413)
General and administrative expenses	40	(22,086)	(20,466)	(21,878)	(20,281)
Asset impairment loss	41	(13,865)	(8,979)	(13,313)	(8,720)
Other business costs		(14)	(19)	(13)	(19)
III. Operating profit		26,119	24,934	25,568	24,468
Plus: Non-operating income		172	331	141	305
Less: Non-operating expenses		(48)	(60)	(47)	(60)
IV. Total profit		26,243	25,205	25,662	24,713
Less: Income tax expense	42	(6,487)	(6,253)	(6,339)	(6,132)
V. Net profit		19,756	18,952	19,323	18,581
Net Profit attributable to the parent company		19,677	18,883	19,323	18,581
Minority shareholders' gain/loss		79	69	-	-
V. After-tax other comprehensive income	43	(1,270)	1,211	(1,270)	1,211
i. Other comprehensive income not to be classified as profit/loss		-	-	-	-
ii. Other comprehensive income to be classified as profit/loss					
1. Profit/loss from changes in fair value of available-for-sale financial assets		(1,270)	1,211	(1,270)	1,211
After-tax other comprehensive income attributable to shareholders of the parent company		(1,270)	1,211	(1,270)	1,211
After-tax other comprehensive income attributable to minority shareholders		-	-	-	-
VII. Total comprehensive income		18,486	20,163	18,053	19,792
Total comprehensive income attributable to shareholders of the parent company		18,407	20,094	18,053	19,792
Total comprehensive income attributable to minority shareholders		79	69	-	-
VIII. Earnings per share					
Basic earnings per share (RMB yuan/share)	44	1.84	1.77		

The accompanying notes are an integral part of these financial statements

BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(In RMB millions, unless otherwise stated)

	Note VIII	The Group		The Bank	
		2016	2015	2016	2015
Cash flows from operating activities					
Net increase in customer deposits and due to banks and other financial institutions		-	34,307	-	36,899
Net increase in due to central banks		77,978	9,969	78,000	10,000
Net decrease in balances with central banks and due from banks and other financial institutions		-	30,224	-	30,119
Net increase in placements from banks and other financial institutions and financial assets under reverse repurchase agreements		35,194	61,792	29,936	51,671
Net decrease in placements with banks and other financial institutions and financial assets under reverse repurchase agreements		25,506	-	25,506	-
Net increase in business debt obligations payable		161,291	47,454	161,291	47,454
Proceeds from interest and fee & commission		86,121	83,961	83,490	81,799
Other proceeds received related to operating activities		13,285	2,659	12,808	278
Sub-total of cash inflows from operating activities		399,375	270,366	391,031	258,220
Net increase in customer deposits and due to banks and other financial institutions		(28,430)	-	(31,289)	-
Net increase in loans and advances to customers		(155,971)	(134,728)	(147,454)	(125,653)
Net increase in balances with central banks and due from banks and other financial institutions		(1,039)	-	(895)	-
Net increase in placements with banks and other financial institutions and financial assets under reverse repurchase agreements		-	(12,215)	-	(12,215)
Cash paid as interest and fee & commission expenses		(40,868)	(47,099)	(39,723)	(45,850)
Cash paid to and for employees		(12,628)	(11,704)	(12,514)	(11,600)
Taxes and dues paid		(11,210)	(10,948)	(10,958)	(10,755)
Other cash paid related to operating activities		(9,317)	(5,292)	(9,114)	(4,328)
Sub-total of cash outflows from operating activities		(259,463)	(221,986)	(251,947)	(210,401)
Net cash flows from operating activities	46	139,912	48,380	139,084	47,819
Cash flows from investing activities					
Proceeds from disposal of investments		712,708	219,078	712,708	219,078
Investment gains received		18,642	19,652	18,641	19,652
Net gains on disposal of fixed assets, intangible assets and other long-term assets		192	153	191	153
Sub-total of cash inflows from investing activities		731,542	238,883	731,540	238,883
Acquisition of investments		(997,842)	(164,522)	(996,942)	(164,522)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(1,233)	(2,997)	(1,231)	(2,970)
Sub-total of cash outflows from investing activities		(999,075)	(167,519)	(998,173)	(167,492)
Net cash flows from operating activities		267,533	71,364	266,633	71,391

BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

(In RMB millions, unless otherwise stated)

	Note VIII	The Group		The Bank	
		2016	2015	2016	2015
Cash flows from financing activities					
Proceeds from disposal of investments		19,978	-	19,978	-
Proceeds from issuance of bonds		40,000	-	40,000	-
Sub-total of cash inflows from financing activities		59,978	-	59,978	-
Sub-total of cash inflows from financing activities		-	(4,400)	-	(4,400)
Cash paid for dividends and profit distribution or interest repayment		(4,758)	(4,965)	(4,758)	(4,965)
Sub-total of cash outflows from financing activities		(4,758)	(9,365)	(4,758)	(9,365)
Net cash flows from financing activities		55,220	(9,365)	55,220	(9,365)
Effect of exchange rate changes on cash and cash equivalents					
		838	361	838	361
Net change of cash and cash equivalents	46	(71,563)	110,740	(71,491)	110,206
Plus: Opening balance of cash and cash equivalents		330,968	220,228	330,271	220,065
Closing balance of cash and cash equivalents	45	259,405	330,968	258,780	330,271

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(In RMB millions, unless otherwise stated)

	Equity attributable to shareholders of the parent company										
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained profit	Sub-total	Minority interest	Total
I. Balance as at 1 January 2016		10,686	-	28,762	1,292	7,913	21,451	47,574	117,678	710	118,388
II. Changes during the year											
i. Net profit		-	-	-	-	-	-	19,677	19,677	79	19,756
ii. Other comprehensive income	43	-	-	-	(1,270)	-	-	-	(1,270)	-	(1,270)
Subtotal of the above i and ii		-	-	-	(1,270)	-	-	19,677	18,407	79	18,486
iii. Capital injection by equity holders											
1. Capital injection by other equity instruments holders	29	-	19,978	-	-	-	-	-	19,978	-	19,978
iv. Profit distribution											
1. Surplus reserve withdrawn	31	-	-	-	-	1,858	-	(1,858)	-	-	-
2. General reserve withdrawn	32	-	-	-	-	-	3,154	(3,154)	-	-	-
3. Dividend distribution	33	-	-	-	-	-	-	(3,879)	(3,879)	-	(3,879)
III. Balance as at 31 December 2016		10,686	19,978	28,762	22	9,771	24,605	58,360	152,184	789	152,973

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

(In RMB millions, unless otherwise stated)

	Equity attributable to shareholders of the parent company										
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained profit	Sub-total	Minority interest	Total
I. Balance as at 1 January 2015		8,905	-	30,543	81	6,134	17,100	38,695	101,458	641	102,099
II. Changes during the year											
i. Net profit		-	-	-	-	-	-	18,883	18,883	69	18,952
ii Other comprehensive income	43	-	-	-	1,211	-	-	-	1,211	-	1,211
Subtotal of the above i and ii		-	-	-	1,211	-	-	18,883	20,094	69	20,163
iii. Profit distribution											
1. Surplus reserve withdrawn	31	-	-	-	-	1,779	-	(1,779)	-	-	-
2. General reserve withdrawn	32	-	-	-	-	-	4,351	(4,351)	-	-	-
3. Dividend distribution	33	-	-	-	-	-	-	(3,874)	(3,874)	-	(3,874)
iv. Internal conversion of shareholders' equity											
1. Conversion of capital reserve into share capital	33	1,781	-	(1,781)	-	-	-	-	-	-	-
III. Balance as at 31 December 2016		10,686	-	28,762	1,292	7,913	21,451	47,574	117,678	710	118,388

The accompanying notes are an integral part of these financial statements

BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(In RMB millions, unless otherwise stated)

	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained profit	Sub-total	Minority interest	Total
I. Balance as at 1 January 2016		10,686	-	28,761	1,292	7,913	21,451	21,427	47,097	710	117,176
II. Changes during the year											
i. Net profit		-	-	-	-	-	-	-	-	19,323	19,323
ii. Other comprehensive income	43	-	-	-	-	-	(1,270)	-	-	-	(1,270)
Subtotal of the above i and ii		-	-	-	-	-	(1,270)	-	-	19,323	18,053
iii. Capital injection by equity holders											
1. Capital injection by equity holders	29	-	-	-	19,978	-	-	-	-	-	19,978
iv. Profit distribution											
1. Surplus reserve withdrawn	31	-	-	-	-	-	-	1,858	-	(1,858)	-
2. General reserve withdrawn	32	-	-	-	-	-	-	-	2,842	(2,842)	-
3. Dividend distribution	33	-	-	-	-	-	-	-	-	(3,879)	(3,879)
III. Balance as at 31 December 2016		-	-	10,686	19,978	28,761	22	9,771	24,269	57,841	151,328

BANK STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

(In RMB millions, unless otherwise stated)

	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained profit	Sub-total	Minority interest	Total
I. Balance as at 1 January 2015		-	-	8,905	-	30,542	81	6,134	17,100	38,496	101,258
II. Changes during the year											
i. Net profit		-	-	-	-	-	-	-	-	18,581	18,581
ii Other comprehensive income	43	-	-	-	-	-	1,211	-	-	-	1,211
Subtotal of the above i and ii		-	-	-	-	-	1,211	-	-	18,581	19,792
iii. Profit distribution											
1. Surplus reserve withdrawn	31	-	-	-	-	-	-	1,779	-	(1,779)	-
2. General reserve withdrawn	32	-	-	-	-	-	-	-	4,327	(4,327)	-
3. Dividend distribution	33	-	-	-	-	-	-	-	-	(3,874)	(3,874)
iv. Internal conversion of shareholders' equity											
1. Conversion of capital reserve into share capital	33	-	-	1,781	-	(1,781)	-	-	-	-	-
III. Balance as at 31 December 2016		-	-	10,686	-	28,761	1,292	7,913	21,427	47,097	117,176

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016 (In RMB millions, unless otherwise stated)

I. Profile of the Bank

Hua Xia Bank Co., Limited (hereinafter “the Bank”), formerly known as Hua Xia Bank, was established as a nationwide commercial bank on 14 October 1992 with the approval of People’s Bank of China (“PBOC”). On 10 April 1996, Hua Xia Bank was approved by PBOC to be restructured as a joint-stock limited company by means of promoter incorporation, and then renamed as Hua Xia Bank Co., Limited. On 21 July 2003, the Bank obtained approval from China Securities Regulatory Commission (“CSRC”) for offering of A shares. On 12 September 2003, the Bank was listed.

The Bank held the License for Financial Business (No. B0008H111000001) upon approval by China Banking Regulatory Commission (“CBRC”), and it acquired the Business License for Enterprises with a unified social credit code of 9111000010112001XW upon approval by the Beijing Administration for Industry and Commerce.

On 21 May 2004, the Bank converted the capital reserve of RMB700,000,000 into share capital at a ratio of 2 for 10 shares on the basis of 3.5 billion of shares as at 31 December 2003. After the conversion, the registered capital reached RMB4,200,000,000, which has been specially verified by Beijing Jingdu Certified Public Accountants, with the Capital Verification Report (Beijing Jingdu Y.Z. (2004) No. 0017).

On 15 October 2008, with approval of CSRC, the Bank issued 790,528,316 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors, namely Shougang Corporation, State Grid Corporation of China and DEUTSCHE BANK AKTIENGESELLSCHAFT. After the additional offering, the registered capital was RMB4,990,528,316. The newly increased capital was verified by Beijing Jingdu Certified Public Accountants which issued the Capital Verification Report (Beijing Jingdu Y.Z. (2008) No. 0085).

On 22 April 2011, with approval of CSRC, the Bank issued 1,859,197,460 RMB-denominated ordinary shares in a non-public offering to three designated investors, namely Shougang Corporation, Yingda International Holdings Corporation, Ltd. (renamed as SGCC Yingda International Holdings Corporation, Ltd. now) and DEUTSCHE BANK LUXEMBOURG S.A. After the additional offering, the registered capital was RMB6,849,725,776. The newly increased capital was verified by Jingdu Tinwha Certified Public Accountants Co., Ltd. which issued the Capital Verification Report (Jingdu Tinwha Y.Z. (2011) No. 0044).

On 24 July 2013, the Bank converted the capital reserve of RMB2,054,917,733 into share capital at a ratio of 3 for 10 shares on the basis of 6.8 billion of shares as at 31 December 2012. After the conversion, the registered capital reached RMB8,904,643,509. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (13) No. 0577).

On 8 July 2015, the Bank converted the capital reserve of RMB1,780,928,702 into share capital at a ratio of 2 for 10 shares on the basis of 8.9 billion of shares as at 31 December 2014. After the conversion, the total share capital reached RMB10,685,572,211. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (15) No. 1307).

On 23 February 2016, the Bank was approved by the CBRC to privately issue up to 200 million domestic preference shares and the par value of each shares is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (16) No. 0167).

As at 31 December 2016, in addition to the Head Office, the Bank had established 40 tier-1 branches in Chinese Mainland, with outlets totaling 886.

The business scope of the Bank and its subsidiaries (collectively referred to as the “Group”) covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safety box service, foreign exchange settlement and sale, sideline insurance agency, leasing service and other services approved by the CBRC.

II. Basis of preparation of financial statements

The Group follows the Accounting Standards for Business Enterprises and relevant rules (hereinafter referred to as “Accounting Standards for Business Enterprises”) promulgated by the Ministry of Finance of PRC (the “MOF”). Besides, the Group also discloses relevant financial information in accordance with the Rules for the Compilation and Submission of information Disclosure by Companies that Offer Securities to the Public No. 15 – General Provisions on Financial Report (Revision 2014) issued by CSRC.

III. Declaration on Compliance with the Accounting Standards for Business Enterprises

The financial statements prepared by the Group truly and fairly represent the bank and consolidated financial position of the Group as at 31 December 2016, and the bank and consolidated operating results and cash flows for the year then ended, in compliance with the Accounting Standards for Business Enterprises.

IV. Major Accounting Policies and Accounting Estimates

1. Accounting period

The accounting period of the Group begins on 1 January and ends on 31 December of the Gregorian calendar.

2. Bookkeeping base currency

Renminbi is the functional currency in the major economic environments of the Group's operation and the Group takes Renminbi as the bookkeeping base currency. The Group adopts Renminbi in the preparation of these financial statements.

3. Basis of Accounting and Measurement

The Group's accounting is on an accrual basis. Except some financial instruments that are measured at fair value, these financial statements are measured on the basis of historical costs. In case of impairment losses on assets, corresponding allowance for impairment losses shall be set aside according to relevant rules.

4. Business combination

Business combination not under the same control

Combination cost is the fair value of the assets paid, liabilities occurred or assumed and equity instruments issued by the buyer for acquiring the control right of the acquiree. The buyer's relevant expenses arising from business combination shall be recorded into current profit or loss upon occurrence.

At the acquisition date, recognizable assets, liabilities or contingent liabilities of the acquiree acquired by the buyer in the business combination are measured at fair value. For the balance between the combination cost and the fair value of recognizable net assets of acquiree acquired during the business combination, it will be recognized into goodwill as an asset and initially measured at cost.

Goodwill arising from business combination will be separately presented in the consolidated financial statements, and will be measured at the amount generated from the cost deducting accumulative allowance for impairment losses. Impairment test shall be conducted for goodwill at the end of each year at least.

The impairment loss on goodwill will be recognized as current profit or loss upon occurrence and will not be reversed in the subsequent accounting periods.

5. Preparation of consolidated financial statements

The consolidated scope of the consolidated financial statements shall be determined based on control. Control means that the Group has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee.

For subsidiaries disposed of by the Group, operating results and cash flows prior to the disposal date (date of losing control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows.

For subsidiaries acquired by business combination under different control rights, operating results and cash flows as of the acquisition date (date of obtaining control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows, and the opening balance and comparison amount of the consolidated financial statements will not be adjusted.

The major accounting policies and accounting period adopted by subsidiaries shall be determined based on those uniformly prescribed by the Bank.

All material accounts and transactions between the Bank and a subsidiary and among subsidiaries shall be offset at the time of business combination.

The part of the owners' equity of the subsidiaries not attributable to the parent company will be recognized as minority interest and be presented as "minority interests" in the consolidated financial statements. The part of the current profit or loss of the subsidiaries recognized as minority interests shall be presented as "minority interests" under the "net profit" item in the consolidated income statement.

If the loss of a subsidiary borne by a minority shareholder exceeds its share of equity at the beginning of the period in this subsidiary, the balance will be written off against the minority interests.

Structured entities refer to entities whose controllers are determined without considering the voting power or similar rights. Activities of such entities are usually guided by contractual arrangement or other arrangement methods including wealth management products, asset-backed securities.

6. Recognition of the Cash and Cash Equivalents

Cash refers to the company's cash on hand and deposits available for payment at any time. Cash equivalents refer to short-term investments with high liquidity held by the Group which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

7. Foreign currency transactions

In the initial recognition of foreign currency transactions, the spot exchange rate on the transaction date shall be adopted. On the balance sheet date, foreign currency items shall be translated to RMB amounts by the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and that in the initial recognition or prior to the balance sheet date is recorded into current profit or loss, except the following circumstances: (1) the balance of exchange arising from foreign currency borrowings eligible for capitalization is recognized into cost of relevant assets after capitalization during the capitalization period; (2) balance of exchange arising from hedging instruments that are used to avoid foreign exchange risks will be treated by the accounting treatment to hedging; (3) balance of exchange arising from changes in book balance other than the amortized cost of available-for-sale monetary items is recognized as other comprehensive income.

The foreign currency-denominated non-monetary items measured at historical cost shall be recorded by the amount presented in the bookkeeping base currency converted by the spot exchange rate on the transaction date. Foreign currency-denominated non-monetary items measured at fair value shall be converted by the spot exchange rate on the determination date of fair value.

8. Financial Instruments

Corresponding financial assets or financial liabilities shall be recognized when the Group becomes a party to a financial instrument contract.

(1) Financial assets

Financial assets are classified into four categories at the initial recognition: financial assets measured at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification shall be determined based on the nature and purpose of the financial assets at the initial recognition. Initially recognized financial assets are measured at fair value. For financial assets measured at fair value through profit or loss, the transaction costs thereof are directly recorded through profit or loss; for other categories of financial assets, the transaction expenses thereof are included in the initially recognized amount. Financial assets traded in a regular manner will be recognized or derecognized in line with the accounting treatment on the transaction date. Buying or selling a financial asset in a regular manner means the financial asset traded is delivered within the time limit specified by market rules or practices.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include held-for-trading financial assets and those financial assets measured at fair value through profit or loss designated at the initial recognition.

Held-for-trading financial assets refer to financial assets meeting any of the following conditions:

- (i) the purpose of acquiring such financial assets is mainly for selling in a short term;
- (ii) they are part of the recognizable financial instrument portfolio under centralized management and there is objective evidence proving that the Group adopts the short-term profit-making method to manage the portfolio in the recent period;
- (iii) they belong to derivative financial instruments other than those designated as effective hedging instruments, those subordinated to financial guarantee contracts, and those linked with equity instruments that have no quotation in active markets and fair values of which cannot be reliably measured, and settled with the delivery of such equity instruments.

Financial assets meeting any of the following conditions can be designated as financial assets measured at fair value through profit or loss at the initial recognition:

(i) The designation can eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from different measurement bases of financial assets;

(ii) The official written documents on risk management or investment strategies of the Group have indicated that the financial assets portfolio or the portfolio of financial assets and liabilities of which the said financial asset is a component will be managed and evaluated on the basis of fair value and be reported to key management personnel;

(iii) Mixed instruments relating with embedded derivative instruments and eligible for designating as financial assets measured at fair value through profit or loss according to the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value, as well as dividends and interest income relating to such financial assets will be recorded through current profit or loss.

Held-to-maturity investments

Held-to-maturity investments refer to non-derivative financial assets that have a fixed maturity, fixed or determinable recoverable amount and that the Group has clear intent and ability to hold it to maturity.

After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment loss identified. Gains or losses are recognized into current profit or loss when such investments are derecognized, impaired or amortized. Effective interest method is the method of calculating amortized cost and interest income/expenses for various periods on the basis of the effective interest rate of the financial asset or financial liability (including a portfolio of financial assets or liabilities). Effective interest rate refers to the interest rate used when discounting the future cash flows of the financial assets or financial liabilities within the estimated renewal period or applicable shorter period into the current book value of the financial assets or financial liabilities.

While calculating the effective interest rate, the Group will estimate the future cash flows based on all the contract clauses of the financial assets or financial liabilities (without consideration of future credit losses), and will also consider various fees and transaction costs that are components of effective interest rate and paid or charged among all parties to the contract of financial assets or financial liabilities, as well as discount or premium etc.

Available-for-sale financial assets

The available-for-sale financial assets refer to the non-derivative financial assets that are defined as available for sale upon the initial recognition, as well as the financial assets other than the financial assets measured at fair value through gain or loss, loans, account receivables and held-to-maturity investments.

Available-for-sale financial assets are measured subsequently at fair value, and gains or losses arising from changes in fair value are recognized as other comprehensive income, which will be transferred out and recorded through current profit or loss when such financial assets are derecognized, except that impairment losses and exchange difference of foreign currency monetary financial assets relating with the amortized cost are recognized through current profit or loss.

Available-for-sale equity instruments that have no quotation in active markets and fair value of which cannot be measured on a reliable basis are measured at cost less any impairment loss identified at the end of the reporting period.

Interest obtained during the holding period of the available-for-sale financial assets and cash dividends announced and issued by the investee are recorded into interest income and investment income respectively.

Loans and receivables

Loans and receivables refer to non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market. The Group's loans and receivables include balances with central banks, due to banks and other financial institutions, placements with banks and other financial institutions, financial assets under reverse repurchase agreements, interest receivable, loans and advances and investments classified as receivables, etc., and they are measured at amortized cost using the effective interest rate method, less impairment loss. Gains or losses are recognized into current profit or loss when such investments are derecognized, impaired or amortized.

(2) Impairment of financial assets

Except financial assets measured at fair value through profit or loss, the Group carries out an inspection on the book value of other financial assets on the balance sheet date. If there is objective evidence that one or more events affecting estimated future cash flows of the financial assets occur after the initial recognition of those assets, impairment losses shall be recognized and allowance be set aside.

Objective evidences on impairment of the financial assets include the following observable circumstances:

- (i) The issuer or debtor has serious financial difficulties;
- (ii) The debtor violates provisions of the contract, e.g. default on or overdue payment of interest or principal;
- (iii) The Group makes compromise to the debtor with financial difficulties due to consideration of economic or legal factors;
- (iv) The debtor may possibly go bankruptcy or be otherwise restructured financially;
- (v) The financial assets cannot be traded in the active market due to material financial difficulties of the issuer;
- (vi) It is incapable of identifying whether the cash flows of a portfolio of financial assets decrease or not, but after overall assessment based on the public data, it has been found that the estimated future cash flows of the portfolio of financial assets have witnessed measurable decrease since the initial recognition, including the following circumstances:
 - a. the payment ability of the debtor of the financial assets has gradually worsened;
 - b. the country or region where the debtor is located encounters economic situations where the portfolio of financial assets may not be paid;
- (vii) There are material unfavorable changes in the technological, market, economic or legal environments of the issuer of equity instruments, which possibly makes the equity instrument investors fail to recover its investment cost;
- (viii) The fair value of the equity instrument decreased severely or not temporarily;
- (ix) Other objective evidences indicating impairment of the financial assets.

Impairment of financial assets measured at amortized cost

If there is an objective evidence proving an financial asset measured at amortized cost is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (excluding future credit losses that haven't incurred) and will be recorded through current profit or loss. If the contract interest rate of the financial asset is a floating rate, then the discounting rate for determining the impairment loss shall be the current effective interest rate specified in the contract.

Whether the collateral is exercised or not, the present value of the future cash flows of financial asset with collateral will be estimated and calculated based on the exercise value of the collateral less the cost for acquiring and selling the collateral.

Firstly, the Group conducts separate impairment test on financial assets with significant single amount. For financial assets with insignificant single amount, it conducts separate impairment test or conducts the test in asset portfolios. For financial assets recognized with no impairment loss by separate test (including financial assets with significant or insignificant single amount), they will be included in the impairment test conducted on financial asset portfolio with similar credit risk features. For financial assets recognized with impairment loss by separate test, they will not be included in the impairment test conducted on financial asset portfolio with similar credit risk features.

The financial assets shall be grouped by the similarity and relevance of their credit risk characteristics for collective assessment on impairment. These credit risk characteristics are generally related to the estimation of future cash flows of the examined assets, which reflects the debtor's ability to repay all due amount in accordance with contract clauses on these assets.

When a financial asset is not recoverable and all necessary procedures are executed and the loss amount determined, the Group will write down corresponding allowance for impairment loss against the financial asset and write it off. Amount recovered after the financial asset is written off shall be written down against the allowance for asset impairment of the current period.

In a subsequent period, if the allowance for impairment loss decreases and the decrease can be objectively related to an event occurring after the allowance is recognized (e.g. upgrading of the borrower's rating), the originally recognized impairment loss shall be reversed. Nevertheless, the reversed book value of the financial asset will not exceed the amortized cost of the financial asset on the date of reverse under the assumption that no allowance for impairment is set aside.

Impairment of the available-for-sale financial assets

When the available-for-sale financial asset is impaired, the accumulated losses arising from the decline of fair value that have been originally included in capital reserve will be transferred out and recorded through current profit or loss. The amount of accumulative losses to be reversed is the balance of initial acquisition cost of the financial asset less the principal recovered and amortized amount, the current fair value and the impairment loss recognized into profit or loss.

After the impairment loss of an available-for sale financial asset is recognized, if, in a subsequent period, there is any objective evidence proving that its value has been recovered, and it is objectively related to the event occurring after such loss is recognized, the impairment loss originally recognized will be reversed. The impairment loss of available-for-sale equity instrument investments will be reversed and recognized as other comprehensive income and that of available-for-sale debt instruments will be reversed and recorded into current profit or loss. The impairment loss of available-for-sale equity instrument investments measured at cost will not be reversed.

(3) Financial liabilities

The Group classifies the financial instruments or their components into financial liabilities or equity instruments in the initial recognition, based on contractual clauses regarding the financial instruments issued and their underlying economic substance in stead of the legal form only, with reference to the definition of financial liability and equity instrument.

In the initial recognition, financial liabilities are classified into financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities and those designated as financial liabilities measured at fair value through profit or loss.

The conditions for classifying financial liabilities into held-for-trading financial liabilities and those measured at fair value through profit or loss designated in the initial recognition are the same with the conditions for classifying financial assets into held-for-trading financial assets and those measured at fair value through profit or loss designated in the initial recognition.

Financial liabilities measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value as well as interest expenses relating to such financial liabilities will be recorded through current profit or loss.

Other financial liabilities

Financial liabilities other than financial guarantee contracts are subsequently measured at amortized cost based on effective interest rate method, and the gains or losses arising from derecognition or amortization are recorded through current profit or loss.

Financial guarantee contracts

Financial guarantee contract is the agreement between the guarantor and the creditor, according to which the guarantor shall fulfill the debt or assume responsibility when the debtor fails to fulfill the repayment obligation. For financial guarantee contracts that are not included in the designated financial liabilities measured at fair value through profit or loss, they are initially recognized by the fair value less direct transaction expenses. After the initial recognition, the subsequent measurement will be based on the amount determined according to the Accounting Standards for Business Enterprises No. 13 – Contingent Matters or the initially recognized amount less the accumulative amortized amount determined according to the Accounting Standards for Business Enterprises No. 14 – Income, whichever is higher.

(4) Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the signing date of relevant contract, and subsequently measured at fair value. Change in fair value of the derivative financial instruments is recognized into current profit or loss.

For mixed instruments with embedded derivative financial instruments, such as financial assets or financial liabilities not designated to be measured at fair value through profit or loss, embedded derivative financial instruments without close relation with the master contract in terms of economic features and risks but with same conditions as the embedded financial derivative instruments, and instrument as an independent unit meeting the definition of derivative financial instruments, the embedded derivative financial instruments shall be split from the mixed instruments and treated as an independent derivative financial instrument.

(5) Determination method of fair value

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

As for financial assets and financial liabilities continuously measured by fair value, based on the observability of the input value of fair value and the overall importance of such input value to measurement of fair value, the Group divides the financial instruments into the following three levels:

Level 1: Fair value measurement refers to the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date;

Level 2: Fair value measurement refers to the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1;

Level 3: Fair value measurement refers to the unobservable input value of related assets or liabilities.

As for the financial instruments with active market, the Group adopts the quotation on the active market to determine their fair value.

The quotation for the financial instruments on the active market refers to the price easily accessible from exchanges, industrial associations, pricing service institutions or regulatory institutions on a regular basis, which also represents the frequently executed market trading price in fair transactions. If the above conditions are not met, then it is a non-active market. Signs of a non-active market include: significant bid-ask spread, markedly expanding bid-ask spread or no existence of recent transactions.

As for the financial instruments without active market, the Group adopts valuation techniques to determine their fair value. Valuation techniques include reference to the prices recently used in market transactions between well-informed willing parties, reference to current fair value of financial instruments of the same nature, discounted cash flow method and option pricing model.

(6) Derecognition

Derecognition of financial assets

Where a financial asset meets any of the following conditions, it will be derecognized:

- (i) Where the contractual rights for collecting cash flows of the said financial asset are terminated;
- (ii) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;
- (iii) Where the financial asset has been transferred and the Group has given up control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset;

In case that the Group neither transfers nor retains almost all the risks and returns relevant to ownership of the financial asset and it does not waive control over the financial asset, it shall recognize the financial asset based on the degree of involvement and concurrently recognize the related liabilities.

When the overall financial assets are derecognized, the difference between the book value of the transferred financial assets and the sum of the consideration received due to transfer and the accumulated changes in fair value originally recorded into other comprehensive income will be recorded through profit or loss.

Derecognition of financial liabilities

In the case that the current obligations of an financial liability is relieved in full or in part, the financial liability will be derecognized in full or in part. Where the Group (debtor) and creditor sign an agreement to replace the existing financial liability by assuming new financial liability of which contract terms are different from those of existing financial liability in essence, the existing financial liability will be derecognized and the new financial liability will be recognized at the same time.

Where all the financial liability is derecognized, the difference between book value of the financial liability and consideration paid (including non-cash assets or new financial liability assumed) will be recorded through current profit or loss.

(7) Offset between financial assets and financial liabilities

When the two conditions below are met, the net amount after offset of the financial assets and the financial liabilities will be presented on the balance sheet:

(i) The Group has the legal right to offset the recognized amount, and the right is executable at present;

(ii) The Group plans to settle by netting or realize such financial assets and pay off such financial liabilities at the same time.

(8) Equity instrument

Equity instruments are contracts which can prove the Group's remaining equity of the assets after deducting all the liabilities. The Group classifies the financial instruments to be issued as equity instruments when all of the following conditions are met:

(i) The financial instrument shall not include delivery of cash or other financial assets to other parties, or any contractual obligation of exchanging financial assets or liabilities with other parties under potentially unfavourable conditions;

(ii) The financial instrument shall or can be settled with the Group's own equity instruments in the future. In case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Group's own equity instruments; in case of a derivative instrument, it can only be settled with fixed number of the Group's own equity instruments exchanging for cash or other financial assets with fixed amount.

The Group treats the offering (including refinancing), repurchase, sale or deregistering of equity instruments as equity movements. It does not recognize the movements of equity instruments' fair value. The expenses in relation to equity trading are deducted from the equity. The Group' treats its distribution to equity instrument holders as distribution of profits, and the stock dividend issued does not affect the total equity.

9. Financial assets under reverse repurchase agreements and financial assets under repurchase agreements

The securities, bills and other assets that are sold under repurchase agreement and will be repurchased in a specified future date at a specified price are presented by category of financial assets before the sale, and funds collected from counterparties are presented as financial assets under repurchase agreements. The consideration paid for purchasing securities, bills and other assets that are bought under the reverse repurchase contract and will be sold at a specified future date at a specified price is presented as financial assets under reverse repurchase agreements. The bid-ask spread of reverse repurchase or repurchase business is amortized by the effective interest rate during the transaction period, and gains or losses arising thereof will be recorded through current profit or loss.

10. Long-term equity investment

Control means that the investor has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee. Joint control refers to the control over a certain arrangement shared by more than one parties as agreed and related activities of this arrangement must be determined upon consent of all participants of the control power. Material impact means an entity has the power to participate in the financial affairs and operating policy of an enterprise but is unable to control or jointly control formulation of these policies together with other parties. At the time of determining whether to control or exert significant influence on the investee, the investee's current convertible corporate bonds and exercisable warrants held by the investor and other parties as well as other potential voting factors are taken into account.

A long-term equity investment is measured initially at cost. For long-term equity investment acquired by business combination not under the same control, the initial investment cost is the combination cost on the acquisition date.

Long-term equity investments acquired by means other than business combination are initially measured at cost. In the case that the investee is under significant influence or joint control but is not controlled, the cost of long-term equity investment is the fair value of originally held equity investment determined according to the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments plus the new investment costs.

Long-term equity investment by cost accounting

The Group adopts the cost method to calculate its long-term equity investment in subsidiaries. Subsidiaries refer to investees controlled by the Group.

When the cost method is adopted, the long-term equity investment is priced at the initial investment cost. The cost of long-term equity investment will be adjusted upon addition or withdrawal of investment. The investment return for the current period is recognized based on cash dividend or profit announced to be distributed by the investee.

Long-term equity investment accounted by equity method

The Group applies the equity method to investment of associates and joint ventures. Associate refers to an investee that can be significantly influenced by the Group. Joint venture refers to a joint arrangement where the Group only has right over net assets of the arrangement.

When the equity method is adopted for accounting, for long-term equity investments with investment cost larger than the shares of the fair value of recognizable net assets of the investee during investment, the investment cost of long-term equity investments is not adjusted; and for long-term equity investments with investment cost smaller than the shares of the fair value of recognizable net assets of the investee during investment, the difference will be recorded through current profit or loss and the investment cost of the long-term equity investments will be adjusted.

When the equity method is adopted for accounting, the investment income and other comprehensive income shall be recognized separately based on the share of net profit or loss and other comprehensive income of the investee to be attributable to the Group, and the book value of long-term equity investments shall be adjusted at the same time. The profit or cash dividend attributable shall be calculated based on that to be distributed by the investee and the book value of long-term equity investments shall be reduced accordingly. Changes in owners' equity other than the investee's net profit or loss, other comprehensive income and profit distribution are recorded into capital reserve and the book value of long-term equity investments shall be adjusted accordingly. The attributable share of the investee's net profit or loss shall be determined based on the fair value of recognizable assets of the investee at the time of acquisition, and recognized after adjustment to the net profit of the investee according to the Group's accounting policies and accounting period. The unrealized profit or loss of internal transactions of the Group with associates and joint ventures attributable to the Group is calculated and offset as per the shareholding proportion, and the investment gains or losses are recognized after the offset. The unrealized loss arising from internal transactions of the Group with the investee that is categorized as impairment loss on transferred assets shall not be offset.

The net loss of the investee to be shared will be to the extent that the book value of long-term equity investment and other long-term equity substantially constituting net investment to the investee are written down to zero. In addition, if the Group has the obligation to assume additional loss of the investee, the projected liabilities will be recognized based on the obligation to be assumed and recorded through current investment loss. If the investee realizes net profit in the following periods, the Group will resume recognition of the attributable income after the income offsets the unrecognized loss.

Disposal of long-term equity investment

When the Group disposes of long-term equity investment, it records the difference between its book value and the actual acquisition cost through current profit or loss. The disposal of long-term equity investment accounted with equity method applies to the same basis with that used by the investee in directly disposing of relevant assets or liabilities. Accounting treatment will be conducted for the part of investment originally recorded into other comprehensive income by corresponding proportion.

11. Fixed assets

The fixed assets of the Group refer to tangible assets held for rendering of labor service, lease or operating management whose useful life exceeds one accounting year.

Fixed assets are measured initially at cost. Depreciation of fixed assets will be set aside based on the straight-line method over the useful life starting from the following month after the fixed assets reach their scheduled usable condition. The usable life, estimated residual rate and annual depreciation rate of all categories of fixed assets are shown as follows:

Category	Useful life	Estimated residual rate	Annual depreciation rate
Houses and buildings	15 – 35 years	5%	2.71% – 6.33%
Office supplies and electronic devices	5 – 8 years	5%	11.88% – 19.00%
Transportation facilities	5 – 10 years	5%	9.50% – 19.00%

Estimated residual value refers to the amount obtained by the Group from disposal of the asset deducting the estimated disposal expense, assuming that the fixed asset comes to the end of its estimated useful life at the expected status.

Any subsequent expenditure related to the fixed asset is recognized as cost of the fixed asset and the book value of the replaced part is derecognized in case that the future economic benefits associated with the asset is very likely to flow to the entity and the cost of the asset can be measured reliably. Other subsequent expenditures are recorded through current profit or loss at the time of occurrence.

At least at the end of every accounting year, the Group reviews the useful life, estimated residual value and depreciation methods for the fixed assets. Any changes will be treated as changes in accounting estimation.

The balance of disposal income from sale, transfer, retirement or destruction of fixed assets deducting their book value and related taxes and dues shall be recorded through profit or loss.

The cost of construction-in-process will be determined based on the actual expenditures of the project, including various project expenditures and other relevant expenses incurring during the construction period. Construction-in-process is converted into fixed asset when it reaches scheduled usable condition.

12. Intangible assets

Intangible assets refer to recognizable non-monetary assets with no physical form that are owned or controlled by the Group.

Intangible assets are measured initially at cost. For an intangible asset with a limited useful life, its original value will be amortized over its estimated useful life starting from the time when it is available for use. Intangible assets with uncertain useful life will not be amortized.

Land use right obtained is generally treated as an intangible asset in accounting. For self-developed houses and buildings, relevant land use right expenditure and the construction cost will be treated as intangible asset and fixed asset in accounting, respectively. For purchased houses and buildings, the cost will be allocated between the land use right and the buildings. If it is hard to realize reasonable allocation, all the cost will be accounted as fixed asset.

At the end of the period, the Group reviews the useful life and amortization method of the intangible asset with a limited useful life. Any changes will be treated as changes in accounting estimation.

13. Repossessed assets

Repossessed assets are initially recognized at fair value, and subsequently measured at the book value or recoverable amount at the end of the period, whichever is lower. When the recoverable amount of the repossessed asset is lower than its book value, impairment reserve for the asset will be set aside.

Gains or losses from disposal of the repossessed asset are recorded through current profit or loss.

If the repossessed asset is converted for private use, it shall be carried forward by its book balance on the date of transfer. If impairment reserve for the repossessed asset is set aside, the reserve shall also be carried forward.

14. Impairment of non-financial assets

At the end of the reporting period, the Group reviews the book value of long-term equity investments, fixed assets, construction-in-process and intangible assets, to confirm whether there is sign of impairment. If there is any sign of impairment on the asset, the recoverable amount shall be estimated. The Group estimates the recoverable amount based on a single asset; if it is hard to estimate the recoverable amount of a single asset, that of the asset portfolio where the single asset belongs will be measured. If the recoverable amount of the asset is lower than the book value, impairment reserve will be set aside based on the difference and be recorded through current profit or loss.

Recoverable amount is determined based on the fair value deducting disposal expense of the asset and present value of estimated future cash flows of the asset, whichever is higher. The fair value of assets is determined based on the price specified in the sales agreements of fair transactions; if there is active market but no sales agreement for the asset, its fair value will be determined based on the buyer's offer; if there is neither active market nor sales agreement, the fair value will be estimated based on the best information accessible. Disposal expenses include legal expense, taxes and carriage expense relating with the asset disposal as well as direct expenses for the asset to be available for sale. The present value of the estimated future cash flows of the assets will be determined based on the estimated future cash flows generated from continuous use and final disposal of the assets discounted by an appropriate discounting rate.

The above impairment loss of assets will not be reversed in the subsequent accounting periods once it is recognized.

15. Staff remuneration and welfare

Employee Compensation

The Group recognizes employees' short-term compensation actually incurred as liabilities during the reporting periods when the employees render services and records it through current profit or loss or relevant asset cost. The Group's employee welfare is recorded through current profit or loss or relevant asset cost based on the actual amount upon occurrence. Non-monetary employee welfare will be measured at fair value.

Social welfare

The Group joins in the social security system for employees established by the government as required, including basic endowment insurance, medical insurance, housing provident fund and other social security systems. During the reporting periods when the employees render services, the social welfare will be recognized as liabilities based on the amount payable and recorded through current profit or loss.

Annuity Plan

In addition to basic endowment insurance, employees of the Bank also participate in the employee retirement benefits plan created by the Bank (hereinafter referred to as "Annuity Plan"). The Bank contributes fund to the Annuity Plan as per a certain percentage of wages, and the contributions are recorded through current profit or loss. The Bank contributes a fixed amount of fund to the Annuity Plan. However, if the Annuity Plan is not sufficient to pay employees' future retirement benefits, the Bank is not obliged to make fund injection.

16. Projected liabilities

If an obligation in connection with contingencies meets the following conditions, the Group will recognize it as a projected liability: (1) The obligation is a current obligation; (2) Performance of the obligation will likely cause outflow of the related economic benefit; (3) The amount of the obligation can be reliably measured.

The amount of recognized projected liabilities is the best estimation of the consideration to be paid for the failure in performing present obligation within the reporting period, giving consideration to the risks and uncertainties relating with the obligation. If the projected liabilities are measured by the estimated cash flows to be paid for fulfilling the present obligation, then the book value is the present value of the cash flows (where the time value is significant).

Where all or partial expenses paid for the liquidation of projected liabilities are expected to be compensated by a third party, the compensation can only be separately recognized as an asset when it is basically confirmed to be recoverable. The recognized compensation amount should not exceed the book value of the projected liabilities.

17. Recognition of income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount can be reliably measured. The specific recognition principles are determined as follows by nature of the revenue:

Interest income and expenses

The interest income and expenses are calculated by the effective interest rate method based on the amortized cost of relevant financial assets and financial liabilities and recorded into current profit or loss.

Fee and commission income and expenses

The fee and commission income and expenses will be recognized on an accrual basis at the time of rendering or receiving services.

18. Income tax

Current tax

On the balance sheet date, the income tax liabilities (or assets) that are formed during the current and previous periods shall be measured based on the amount of income tax that should be paid (or rebated) based on the tax law. The taxable income, namely the basis of current tax calculation, is obtained after the pre-tax accounting profit of the period is adjusted pursuant to the tax laws.

Deferred income tax

For the difference between the book value and the tax base of some assets and liabilities and the temporary difference between the book value and tax base of items that are not recognized as assets and liabilities but whose tax base can be determined according to the tax law, the deferred income tax assets and liabilities will be recognized based on the balance sheet liability method.

For taxable temporary differences relating with the initial recognition of goodwill, or the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. In addition, for taxable temporary differences in connection with investments in subsidiaries and associates, if the Group can control the time for the reversal of such temporary differences and the temporary differences are unlikely to be reversed in the foreseeable future, relevant deferred income tax liabilities will not be recognized. Except the above cases, the Group will recognize all deferred income tax liabilities generated from taxable temporary differences.

For deductible temporary differences relating with the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. Besides, for deductible temporary differences in connection with investments in subsidiaries and associates, if temporary differences are not likely to be reversed in the foreseeable future and taxable income is not likely to be obtained in the future to offset deductible temporary difference, relevant deferred income tax assets shall not be recognized. Except the above case, the Group recognizes the deferred income tax assets arising from other deductible temporary difference up to the amount of taxable income that may be obtained in the future to offset the deductible temporary difference.

For deductible losses that could be carried forward to the following years and tax credits, the Group recognizes relevant income tax assets within the limit of future taxable income that is very likely to be obtained by the Group to offset deductible losses and tax credits.

On the balance sheet date, the deferred income tax assets and liabilities are measured based on the tax rate in the expected period to collect the assets or repay the liabilities, according to the tax law.

On the balance sheet date, the book value of the deferred income tax assets will be reviewed. In case that the Group is not likely to obtain adequate amount of taxable income in the future to offset the deferred income tax assets, the book value of the deferred income tax assets will be written down. When the Group is able to obtain an adequate amount of taxable income, the written-down amount will be reversed.

Income tax expense

Income tax expense includes the current income tax and the deferred income tax.

Except that current income tax and deferred income tax relating with transactions or events recognized into other comprehensive income or directly recorded as shareholders' equity are recognized as other comprehensive income or shareholders' equity, and that book value of the goodwill is adjusted for deferred income tax arising from business combination, all the other expenses or income from current income tax and deferred income tax will be recorded through current profit or loss.

Offset of income tax

When the Group has the statutory right to settle on a net basis, or intends either to settle on a net basis or realize assets and repay liabilities at the same time, its current income tax assets and liabilities will be presented by the net amount after offset.

The deferred income tax assets and liabilities of the Group will be presented by the net amount after offset in the case that the Group has the statutory right to settle the current income tax assets and liabilities on a net basis, and the deferred income tax assets and liabilities are related to the income tax levied from a single subject of taxation by a single taxation authority or related to the income tax levied from different subjects of taxation, but the subjects of taxation involved intend to settle the current income tax assets and liabilities on a net basis or realize assets and repay liabilities at the same time during a future period in which a significant deferred income tax asset and liability is reversed.

19. Fiduciary business

Generally, the Group manages assets on behalf of customers as the agent, trustee or other fiduciary capacities in accordance with the agent agreement concluded with securities investment fund, social security fund, insurance company, trust company and other institutions. The Group only provides services and charges fees according to the agent agreement and does not take risks and interests relating with the agency assets. The agency assets will not be recognized in the balance sheet of the Group.

The Group also engages in entrusted loans. The Group grants loans to borrowers as an intermediary based on the borrower, purpose, amount, interest rate and repayment plan determined by the principal, in accordance with the entrusted loan contract. The Group is responsible for granting and collecting entrusted loans and charges fees for services provided, but it does not take risks and interests relating with the entrusted loans. The entrusted loans and entrusted loan assets will not be recognized in the balance sheet of the Group.

20. Leasing

Financial lease is substantially a type of lease where all risks and compensations relating with the assets are transferred. Operating lease includes all leases other than the financial lease.

The Group records operating lease as the leaser

The rental income from operating lease is recognized through current profit or loss in each period of the lease term based on the straight-line method. The initial direct expenses with larger amount are capitalized at occurrence and recorded through current profit or loss over the whole lease period by phase according to the same basis as rental income recognition; other initial direct expenses with smaller amount are recorded through current profit or loss at occurrence. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

The Group records financial lease as the leaser

On the starting date of the financial lease, the sum of the minimum rental income and the initial direct expense will be posted as the financial lease receivable and recorded into loans and advances in the balance sheet. The unsecured balance will be recorded at the same time. The difference between the sum of minimum rental income, initial direct expense and unsecured balance and the present value thereof will be recognized as unrealized financing income. Within the lease period, the current interest income will be recognized based on the effective interest rate method. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

The Group records operating lease as the lessee

The rental expenses for operating lease are recognized as current profit or loss in each period of the lease term based on the straight-line method. Initial direct expenses are recorded through profit or loss. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

In the case that the leaser offers incentives for the operating lease, all the preferential factors arising from the incentives will be deducted from the rental expenses based on the straight-line method.

V. Major judgments made in accounting policy application and key assumptions and uncertainties adopted in accounting estimation

During the process of applying the accounting policies described in Note IV, the Group needs to make judgments, estimates and assumptions on the book value of statement items that cannot be measured accurately due to the inherent uncertainties of the operating activities. These judgments, estimates and assumptions are made based on the historical experience of the Management of the Group and other relevant factors, and therefore the actual results may be different from the estimates of the Group.

The Group regularly checks the foresaid judgments, estimates and assumptions on an ongoing basis. If the change in accounting estimates only has impact on the current period, it will be recognized in the current period; if it has impact on both the current period and future periods, it will be recognized in the current period and future periods.

On the balance sheet day, the Group needs to make judgments, estimates and assumptions on the amount of items in the financial statements in the following fields:

1. Impairment of loans and advances to customers

The Group conducts assessment on the allowance for impairment losses on loans on each balance sheet date. The Group makes judgments not only on the impairment losses on loans that can be identified one by one, but also the signs for decrease in future cash flows of the loan portfolio. The signs for impairment losses on loans include deteriorated repayment capability of borrowers in the loan portfolio or default of borrowers in the loan portfolio due to changes in the economic environment of the country or region. The amount of impairment losses on loans and advances assessed individually is the difference between the present value of the future cash flows and the book value of the said loans. When impairment losses on loans are assessed in portfolio, the Group calculates the future cash flows of the loan portfolio based on the historical experience obtained at the time when assets with similar credit risk features and objective evidences on impairment incur losses. The Group will regularly review the methods and assumptions used in estimating the amount and time of the future cash flows, to reduce the difference between the estimated impairment losses on loans and the actual losses.

2. Fair value of financial instruments

As for the financial instruments without active market, the Group adopts various valuation methods to determine their fair value. These methods include model analysis of discounting cash flows, option pricing model and other valuation methods (if applicable). In practical application, the models generally use observable data. The Management needs to evaluate such areas as credit risk, market fluctuation and relevance of the Group and counterparties. These changes in related assumptions will influence the fair value of the financial instruments.

3. Held-to-maturity investments

The Group classifies the non-derivative financial assets which have a fixed or determinable recoverable amount and fixed maturity and for which the Group has clear intent and ability to hold to maturity into held-to-maturity investments. Such classification work involves plenty of judgments. During the process of judgment, the Group will assess its willingness and ability to hold such investments to maturity. Except special cases (e.g. selling insignificant amount of investments close to the maturity date), if the Group fails to hold these investments to maturity, all such investments shall be reclassified as available-for-sale financial assets.

4. Impairment of the held-to-maturity investment

The Group depends on the judgments of the Management to a great extent for determining whether the held-to-maturity investments are impaired. The objective evidences for impairment include the situation where the financial assets cannot be traded in the active market and the contract can't be fulfilled (e.g. default on the payment of interest or principal) due to the material financial difficulties of the issuer. During the process of judgment, the Group needs to assess the impact of objective evidences for impairment on the estimated future cash flows of the investment.

5. Impairment of the available-for-sale financial assets

The Group depends on the judgments of the Management to a great extent for determining whether the available-for-sale financial assets are impaired. During the process of judgment, the Group needs to assess the extent to which and the duration when the fair value of the investment is lower than its cost, as well as the financial position and short-term business outlook of the investee, including industry status, technological reform, credit rating, default rate and counterparty's risks.

6. Impairment of Investments classified as receivables

The Group depends on the judgments of the Management to a great extent for determining whether the investments classified as receivables are impaired. The objective evidences for impairment include the situation where the contract on the financial assets can't be fulfilled due to the material financial difficulties of the issuer. During the process of judgment, the Group needs to assess the impact of objective evidences for impairment on the estimated future cash flows of the investment. The Group makes judgments not only on the impairment of investments classified as receivables that can be identified one by one, but also the signs for decrease in future cash flows of the investment portfolio. When impairment losses on investments classified as receivables are assessed in portfolio, the Group calculates the future cash flows of the loan portfolio based on the historical experience obtained at the time when assets with similar credit risk features and objective evidences on impairment incur losses.

7. Income tax

In the normal operating activities of the Group, there is uncertainty in the ultimate tax treatment and calculation of some transactions. Whether some items can be disbursed before tax is subject to the approval of the competent taxation authorities. If there is any difference between the ultimate determination result and the initially estimated amount of these tax items, the difference will pose impact on the current income tax and deferred income tax for the ultimate recognition period. At the same time, the Management of the Group needs to estimate the amount of deferred income tax assets that can be reversed in the future.

8. Judgment on control over structured entity

Where the Group serves as the manager or investor of the structured entity, it is necessary to assess whether the Group is the principal or agent so as to decide whether it has control over the structured entity. The Group decides whether it is the principal or agent based on such factors as its decision-making scope as the manager or investor, power of other parties, compensation of management services and the risk exposure of variable income.

VI. Major items

1. Enterprise income tax

Subjects of taxation of the Group pay the enterprise income tax at 25% of the taxable income pursuant to the Enterprise Income Tax Law of the People's Republic of China.

2. VAT

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation jointly released the Notice on Expanding the Pilot Program of Replacing Business Tax with VAT (C.SH. [2016] No.36), requiring that the pilot program should be implemented across the board and across the country from 1 May 2016. All business taxpayers of construction, real estate, finance, life services and other sectors are included to the pilot scope, thus paying VAT instead of business tax. Since 1 May 2016, the Group has paid VAT instead of business tax.

Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, has been a pilot enterprise for the trial implementation of replacing business tax with VAT in Kunming. As of 1 August 2013, the company has been paid VAT for tangible personal property at the rate of 17% and for advisory services at the rate of 6%.

3. Urban maintenance and construction tax

The Group calculates and pays the urban maintenance and construction tax at 5% or 7% of the business tax and VAT.

4. Education fee and surcharges

The Group calculates and pays the education fee and surcharges at 3% of the business tax and VAT.

VII. Business Combination and Consolidated Financial Statements

Subsidiaries acquired through establishment or investment as at 31 December 2016 are as follows:

Name	Date of establishment	Register place	Registered capital/ paid-in capita	Shareholding percentage	Voting rights percentage	Minority interests	Business nature
			RMB millions				
Beijing Daxing Hua Xia Rural Bank Co., Ltd.	2010	Beijing	125	80.00	80.00	25	Bank
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	2011	Kunming	50	70.00	70.00	19	Bank
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	2011	Jiangyou	50	70.00	70.00	24	Bank
Hua Xia Financial Lease Co., Limited	2013	Kunming	3,000	82.00	82.00	721	Financial lease

For details on structured entities excluded in consolidated scope of the Group, please see Note XIV: Structured Entities.

VIII. Notes to Major Items in the Financial Statements

1. Cash on hand and balances with central banks

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Cash on hand	3,210	3,130	3,200	3,119
Statutory reserves with central banks (1)	193,636	198,538	193,462	198,401
Statutory reserves with central banks (2)	22,692	61,554	22,159	61,440
Other balances with central banks (3)	2,635	872	2,635	872
Total	222,173	264,094	221,456	263,832

(1) The Group deposits statutory reserves for general deposits with PBOC as required. The percentage of reserves is specified below:

	31 December 2016	31 December 2015
RMB:		
The Bank	14.50%	15.00%
Daxing Hua Xia Village Bank Co., Ltd.	9.00%	9.50%
Kunming Chenggong Hua Xia Village Bank Co., Ltd.	9.00%	9.50%
Sichuan Jiangyou Hua Xia Village Bank Co., Ltd.	8.00%	8.50%
Foreign currency:	5.00%	5.00%

(2) Excessive reserves with the central bank refer to the funds placed by the Group with the central bank in addition to the statutory reserves to ensure the normal withdrawal of deposits and business operations.

(3) Other funds placed with the central bank are deemed as fiscal deposits and exchange risk reserve at the central bank, and PBOC pays no interest for the fiscal deposits and exchange risk reserve.

2. Due from banks and other financial institutions

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Due from domestic banks and other financial institutions	128,385	39,434	128,268	38,934
Due from overseas banks and other financial institutions	5,452	10,135	5,452	10,135
Less: Allowance for impairment losses on due from banks and other financial institutions				
Individual assessment	(5)	(5)	(5)	(5)
Collective assessment	(52)	(70)	(52)	(70)
Book value of due from banks and other financial institutions	133,780	49,494	133,663	48,994

3. Placements with banks and other financial institutions

	The Group and the Bank	
	31 December 2016	31 December 2015
Placements with domestic banks and other financial institutions	15,640	29,870
Placements with overseas banks and other financial institutions	28	800
Placements with other domestic financial institutions	316	416
Less: Individual assessment on allowance for impairment losses on placements with banks and other financial institutions	(116)	(114)
Book value of placements with banks and other financial institutions	15,868	30,972

4. Financial assets measured at fair value through profit or loss Held-for-trading financial assets

	The Group and the Bank	
	31 December 2016	31 December 2015
Bonds of public entities and quasi-governments	831	1,971
Bonds of financial institutions	1	1
Corporate bonds	4,107	9,900
Total	4,939	11,872

5. Derivative financial instruments

Non-hedging instruments:

	The Group and the Bank		
	31 December 2016		
	Contractual/ nominal principal	Fair value	
		Assets	Liabilities
Foreign exchange forwards	14,437	30	134
Foreign exchange swaps	498,404	758	944
Option contracts	12,500	15	15
Total		803	1,093

	The Group and the Bank		
	31 December 2015		
	Contractual/ nominal principal	Fair value	
		Assets	Liabilities
Foreign exchange forwards	6,588	32	26
Foreign exchange swaps	158,208	152	136
Option contracts	10,000	7	7
Option contracts	4,178	-	-
Total		191	169

Contractual/nominal amount refers to the unfinished trade volume on the balance sheet date instead of the risk amount.

6. Financial assets held under resale agreements

	The Group and the Bank	
	31 December 2016	31 December 2015
Bonds	120,666	145,885
Bills	1,366	99,412
Total	122,032	245,297

7. Interest receivables

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Interest of loans and advances to customers	5,661	4,023	5,650	4,012
Interest of held-to-maturity investment	3,631	2,633	3,631	2,633
Interest of investments classified as receivables	2,131	1,560	2,131	1,560
Interest of available-for-sale financial assets	1,407	1,432	1,407	1,432
Interest of deposits and placements with banks and other financial institutions	787	307	787	307
Interest of financial assets under reverse repurchase agreements	119	534	119	534
Interest of financial assets measured at fair value through profit or loss	71	114	71	114
Total	13,807	10,603	13,796	10,592

On 31 December 2016 and 31 December 2015, the aging of interest receivable of the Group and the Bank was no more than one year.

8. Loans and advances to customers

(1) The Loans and advances are distributed to corporate and personal customers as follows:

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Corporate loans and advances	970,996	868,267	925,283	830,943
Of which: Loans	940,878	833,027	895,165	795,704
Bills of exchange for imports/exports	2,659	3,762	2,659	3,762
Discounting	27,459	31,478	27,459	31,477
Personal loans and advances	245,658	200,905	245,114	200,487
Of which: Housing mortgage	123,841	111,248	123,836	111,246
Credit Cards	78,877	52,970	78,877	52,970
Others	42,940	36,687	42,401	36,271
Total loans and advances to customers	1,216,654	1,069,172	1,170,397	1,031,430
Less: Allowance for impairment losses on loans and advances	(32,299)	(27,235)	(31,096)	(26,575)
Of Which: Individual assessment	(8,403)	(7,213)	(8,319)	(7,212)
Collective assessment	(23,896)	(20,022)	(22,777)	(19,363)
Total	1,184,355	1,041,937	1,139,301	1,004,855

(2) The loans and advances are presented as follows by assessment method:

The Group						
Impaired loans and advances identified (ii)						
	Percentage of impaired loans and advances identified in total loans and advances	Loans and advances for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Sub-total	Total	Individual assessment on allowance for impairment
31 December 2016						
Total loans and advances to customers	1,196,306	2,803	17,545	20,348	1,216,654	1.67%
Allowance for impairment losses on loans and advances	(21,806)	(2,090)	(8,403)	(10,493)	(32,299)	
Book value of loans and advances to customers	1,174,500	713	9,142	9,855	1,184,355	
31 December 2015						
Total loans and advances to customers	1,052,875	2,156	14,141	16,297	1,069,172	1.52%
Allowance for impairment losses on loans and advances	(18,524)	(1,498)	(7,213)	(8,711)	(27,235)	
Book value of loans and advances to customers	1,034,351	658	6,928	7,586	1,041,937	
The Bank						
Impaired loans and advances identified (ii)						
	Percentage of impaired loans and advances identified in total loans and advances	Loans and advances for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Sub-total	Total	Individual assessment on allowance for impairment
31 December 2016						
Total loans and advances to customers	1,150,168	2,803	17,426	20,229	1,170,397	1.73%
Allowance for impairment losses on loans and advances	(20,687)	(2,090)	(8,319)	(10,409)	(31,096)	
Book value of loans and advances to customers	1,129,481	713	9,107	9,820	1,139,301	
31 December 2015						
Total loans and advances to customers	1,015,138	2,156	14,136	16,292	1,031,430	1.58%
Allowance for impairment losses on loans and advances	(17,865)	(1,498)	(7,212)	(8,710)	(26,575)	
Book value of loans and advances to customers	997,273	658	6,924	7,582	1,004,855	

(i) Referring to loans and advances whose impairment is yet to be identified. The allowance will be set aside by collective method.

(ii) Impaired loans and advances identified include loans whose impairment is objectively evidenced and identified. The allowance for impairment on these loans can be assessed and set aside by individual or collective methods.

(3) Allowance for impairment losses on loans and advances

	The Group					
	2016			2015		
	Percentage of impaired loans and advances identified in total loans and advances	Loans and advances for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Sub-total	Total	Individual assessment on allowance for impairment
Balance at the beginning of the year	7,213	20,022	27,235	5,595	18,289	23,884
Charge for the year	8,648	4,763	13,411	6,817	2,001	8,818
Recovery of written-off loans and advances	94	48	142	74	4	78
Transfer-out due to increase of present value	(650)	(37)	(687)	(322)	(22)	(344)
Write-offs for the year	(6,902)	(900)	(7,802)	(4,951)	(250)	(5,201)
Balance at the end of the year	8,403	23,896	32,299	7,213	20,022	27,235

	The Bank					
	2016			2015		
	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total
Balance at the beginning of the year	7,212	19,363	26,575	5,595	17,887	23,482
Charge for the year	8,563	4,303	12,866	6,815	1,744	8,559
Recovery of written-off loans and advances	94	48	142	74	4	78
Transfer-out due to increase of present value	(648)	(37)	(685)	(321)	(22)	(343)
Write-offs for the year	(6,902)	(900)	(7,802)	(4,951)	(250)	(5,201)
Balance at the end of the year	8,319	22,777	31,096	7,212	19,363	26,575

9. Available-for-sale financial assets

	The Group and the Bank	
	31 December 2016	31 December 2015
Debt instruments		
Government bonds	13,887	9,911
Bonds of public entities and quasi-governments	38,910	40,259
Bonds of financial institutions	8,168	-
Corporate bonds	16,659	23,148
Certificates of deposit with banks and other financial institutions	14,548	-
Less: Impairment of the available-for-sale financial assets		
Individual assessment	-	(200)
Collective assessment	(2)	-
Subtotal	92,170	73,118
Equity instrument	(1)	82
Total	92,252	73,200
Of which:		
Amortized cost of the available-for-sale debt instruments	92,142	71,595
Changes in fair value recorded in other comprehensive income accumulatively	30	1,723
Allowance for impairment losses set aside accumulatively	(2)	(200)
Fair value of the available-for-sale debt instruments	92,170	73,118

(1) As the Group's equity instrument classified as available-for-sale financial assets for accounting has no quotation in the active market and its fair value can't be reliably measured, it is measured at cost.

10. Held-to-maturity investments

	The Group and the Bank	
	31 December 2016	31 December 2015
Government bonds	202,700	138,308
Bonds of public entities and quasi-governments	33,448	26,443
Bonds of financial institutions	41,130	20,455
Corporate bonds	1,000	3,967
Certificates of deposit with banks and other financial institutions	67,315	5,370
Total	345,593	194,543

11. Account receivable held for investment

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Government bonds	157	226	157	226
Bonds of financial institutions	1,500	2,650	1,500	2,650
Wealth management products	76,205	–	76,205	–
Beneficiary rights of assets	38,287	74,469	37,387	74,469
Asset management plan of financial institutions	82,258	998	82,258	998
Less: Allowance for impairment of investments classified as receivables				
Individual assessment	(160)	–	(160)	–
Collective assessment	(869)	(883)	(869)	(883)
Total	197,378	77,460	196,478	77,460

12. Long-term equity investment

	The Bank	
	31 December 2016	31 December 2015
Subsidiaries		
– Hua Xia Financial Lease Co., Limited	2,460	2,460
– Beijing Daxing Hua Xia Rural Bank Co., Ltd	100	100
– Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35
– Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	35
Total	2,630	2,630

As at 31 December 2016 and 31 December 2015, there was no impairment in the Group's long-term equity investments.

13. Fixed assets

	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction-in-process	Total
Original value					
1 January 2016	8,384	6,321	133	1,718	16,556
Acquisition in the year	77	750	12	394	1,233
Transfer-in/(transfer-out) of construction-in-process	325	-	-	(325)	-
Sale/disposal	-	(191)	(7)	-	(198)
31 December 2016	8,786	6,880	138	1,787	17,591
Accumulative depreciation					
1 January 2016	(1,631)	(3,611)	(62)	-	(5,304)
Charge for the year	(231)	(851)	(12)	-	(1,094)
Sale/disposal	-	174	5	-	179
31 December 2016	(1,862)	(4,288)	(69)	-	(6,219)
Allowance for impairment losses					
1 January 2016	-	-	-	-	-
31 December 2016	-	-	-	-	-
Net amount					
1 January 2016	6,753	2,710	71	1,718	11,252
31 December 2016	6,924	2,592	69	1,787	11,372

	The Bank					
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction- in-process	Total	
Original value						
1 January 2016	8,384	6,298	131	1,694	16,507	
Acquisition in the year	77	748	12	394	1,231	
Transfer-in/(transfer-out) of construction-in-process	325	–	–	(325)	–	
Sale/disposal	–	(189)	(7)	–	(196)	
31 December 2016	8,786	6,857	136	1,763	17,542	
Accumulative depreciation						
1 January 2016	(1,631)	(3,596)	(62)	–	(5,289)	
Charge for the year	(231)	(847)	(12)	–	(1,090)	
Sale/disposal	–	173	5	–	178	
31 December 2016	(1,862)	(4,270)	(69)	–	(6,201)	
Allowance for impairment losses						
1 January 2016	–	–	–	–	–	
31 December 2016	–	–	–	–	–	
Net amount						
1 January 2016	6,753	2,702	69	1,694	11,218	
31 December 2016	6,924	2,587	67	1,763	11,341	

As at 31 December 2016 and 31 December 2015, the Group has several houses and buildings that are in use but whose registration of title is in process. The Management of the Group expects that relevant formalities will neither affect the Group's succession of the asset rights nor cause adverse impact on its operation.

14. Intangible assets

	The Group	The Bank
Original value		
1 January 2016	98	96
Acquisition in the year	-	-
31 December 2016	98	96
Accumulated amortization		
1 January 2016	(11)	(11)
Charge for the year	(3)	(2)
31 December 2016	(14)	(13)
Total book value of intangible assets, net		
1 January	87	85
31 December 2016	84	83
Residual amortization life (year)	6-34	34

Intangible assets include land use right and use right of computer software systems.

15. Deferred Taxation

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Deferred income tax assets	5,984	4,570	5,780	4,485

(1) Change in balance of deferred income tax

	The Group		The Bank	
	2016	2015	2016	2015
Balance at the beginning of the year	4,570	4,419	4,485	4,378
Recorded into gain/loss of the year	991	555	872	511
Recorded into other comprehensive income	423	(404)	423	(404)
Balance at the beginning of the year	5,984	4,570	5,780	4,485

(2) Deferred income tax assets and liabilities

	The Group			
	31 December 2016		31 December 2015	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	14,022	3,506	11,444	2,861
Wages set aside but not paid	8,002	2,000	7,356	1,839
Allowance for impairment losses on other assets	1,660	415	1,406	351
Net fair value changes of available-for-sale financial assets	(30)	(8)	(1,723)	(431)
Changes in fair value of financial assets measured at fair value through profit or loss and derivative financial instruments	281	71	(213)	(53)
Others	–	–	12	3
Sub-total	23,935	5,984	18,282	4,570

	The Bank			
	31 December 2016		31 December 2015	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	13,288	3,322	11,176	2,794
Wages set aside but not paid	7,920	1,980	7,293	1,824
Allowance for impairment losses on other assets	1,660	415	1,406	351
Net fair value changes of available-for-sale financial assets	(30)	(8)	(1,723)	(431)
Changes in fair value of financial assets measured at fair value through profit or loss and derivative financial instruments	281	71	(213)	(53)
Sub-total	23,119	5,780	17,939	4,485

16. Other assets

		The Group		The Bank	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Receivables and payment on account	(1)	2,968	1,953	2,699	1,731
Long-term prepaid expenses		1,293	1,260	1,260	1,226
Repossessed assets to be disposed of	(2)	1,092	636	1,092	636
Funds to be cleared		361	994	360	994
Others		101	189	15	8
Total		5,815	5,032	5,426	4,595

(1) Receivables and payment on account presented by aging

Aging	The Group							
	31 December 2016				31 December 2015			
	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	2,804	75.34	(336)	2,468	1,122	46.56	(59)	1,063
1 – 2 years (inclusive)	223	5.99	(37)	186	145	6.02	(26)	119
2 – 3 years (inclusive)	61	1.64	(21)	40	165	6.85	(19)	146
More than 3 years	634	17.03	(360)	274	978	40.57	(353)	625
Total	3,722	100.00	(754)	2,968	2,410	100.00	(457)	1,953

Aging	The Bank							
	31 December 2016				31 December 2015			
	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	2,528	73.36	(329)	2,199	900	41.13	(59)	841
1 – 2 years (inclusive)	223	6.47	(37)	186	145	6.63	(26)	119
2 – 3 years (inclusive)	61	1.77	(21)	40	165	7.54	(19)	146
More than 3 years	634	18.40	(360)	274	978	44.70	(353)	625
Total	3,446	100.00	(747)	2,699	2,188	100.00	(457)	1,731

(2) Repossessed assets to be disposed of

	The Group and the Bank	
	31 December 2016	31 December 2015
Housing properties	1,450	800
Others	62	114
Less: Allowance for impairment losses on repossessed assets to be disposed of	(420)	(278)
Net amount	1,092	636

17. Allowance for impairment losses on assets

	The Group						
	2016						
	Charge/ (reversal) for the year	Transfer- in/ (transfer- out) for the year	Opening balance	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks and other financial institutions	75	(23)	-	-	-	5	57
Placements with banks and other financial institutions	114	(3)	-	-	-	5	116
Loans and advances to customers	27,235	13,411	(687)	142	(7,802)	-	32,299
Account receivable held for investment	883	170	-	-	(24)	-	1,029
Available-for-sale financial assets	200	2	(200)	-	-	-	2
Others	736	308	175	-	(50)	5	1,174
Total	29,243	13,865	(712)	142	(7,876)	15	34,677

The Group							
2015							
	Charge/ (reversal) for the year	Transfer- in/ (transfer- out) for the year	Opening balance	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks and other financial institutions	42	32	-	-	-	1	75
Placements with banks and other financial institutions	114	(3)	-	-	-	5	114
Loans and advances to customers	23,884	8,818	(344)	78	(5,201)	-	27,235
Account receivable held for investment	1,062	(179)	-	-	-	-	883
Available-for-sale financial assets	-	200	-	-	-	-	200
Others	644	108	175	-	(22)	6	736
Total	25,746	8,979	(344)	78	(5,223)	7	29,243

The Bank							
2016							
	Charge/ (reversal) for the year	Transfer- in/ (transfer- out) for the year	Opening balance	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks and other financial institutions	75	(23)	-	-	-	5	57
Placements with banks and other financial institutions	114	(3)	-	-	-	5	116
Loans and advances to customers	26,575	12,866	(685)	142	(7,802)	-	31,096
Account receivable held for investment	883	170	-	-	(24)	-	1,029
Available-for-sale financial assets	200	2	(200)	-	-	-	2
Others	736	301	175	-	(50)	5	1,167
Total	28,583	13,313	(710)	142	(7,876)	15	33,467

The Bank							
2015							
	Charge/ (reversal) for the year	Transfer- in/ (transfer- out) for the year	Opening balance	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks and other financial institutions	42	(32)	-	-	-	1	75
Placements with banks and other financial institutions	114	-	-	-	-	-	114
Loans and advances to customers	23,482	8,559	(343)	78	(5,201)	-	26,575
Account receivable held for investment	1,062	(179)	-	-	-	-	883
Available-for-sale financial assets	-	200	-	-	-	-	200
Others	644	108	175	-	(22)	6	736
Total	25,344	8,720	(343)	78	(5,223)	7	28,583

18. Due to central banks

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Mid-term credit facility	108,000	30,000	108,000	30,000
Others	5	27	-	-
Total	108,005	30,027	108,000	30,000

Mid-term credit facility refers to the monetary policies tools issued by PBOC to commercial banks and policy banks by means of pledge. At the end of 2016, the Bank held mid-term credit facilities for six – twelve months at the interest rate of 2.85% – 3.25% which was pledged with its bonds worth of RMB122.68 billion. At the end of 2015, the Bank held six-month mid-term credit facility at the interest rate of 3.35%, which was pledged with its bonds worth of RMB35,160 million.

19. Due to banks and other financial institutions

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Due to domestic banks	89,006	132,295	89,985	135,548
Due to overseas banks	579	1,020	579	1,020
Due to other domestic financial institutions	135,548	136,885	135,647	226,211
Total	225,133	270,200	226,211	273,508

20. Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Placements from domestic banks	72,571	60,423	36,818	29,928
Placements from overseas banks	559	2,718	559	2,718
Placements from other domestic financial institutions	–	1,000	–	1,000
Total	73,130	64,141	37,377	33,646

21. Repurchase agreements

	The Group and the Bank	
	31 December 2016	31 December 2015
Bonds	106,462	69,670
Bills	234	10,821
Total	106,696	80,491

For details on the Group's assets taken as collateral for repurchase, please see Note XI-6 Collateral.

22. Due to customers

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Demand deposits				
Corporate deposits	560,322	489,750	558,977	488,946
Personal deposits	114,459	110,917	114,305	110,820
Time deposits				
Corporate deposits	404,577	414,827	404,434	414,723
Personal deposits	125,074	130,830	124,571	130,399
Security deposit received (1)	152,332	171,957	152,195	171,753
Structured deposits	8,263	30,421	8,263	30,421
Outward remittances and remittances outstanding	3,206	2,912	3,196	2,889
Others	67	49	67	49
Total	1,368,300	1,351,663	1,366,008	1,350,000

(1) Security deposit received is presented by item as follows:

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Security deposit for bank acceptance bills	123,031	137,604	122,945	137,456
Security deposit for L/C issuance	12,060	13,525	12,060	13,525
Security deposit for L/G issuance and guarantee	4,100	2,780	4,100	2,780
Other security deposits	13,141	18,048	13,090	17,992
Total	152,332	171,957	152,195	171,753

23. Accrued payroll

	The Group			
	2016			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Salaries and bonuses	7,356	9,390	(8,744)	8,002
Employee welfare	–	369	(369)	–
Social insurance	42	1,806	(1,789)	59
Housing provident fund	23	739	(749)	13
Labor union funds and employee education expense	100	282	(305)	77
Others	4	674	(672)	6
Total	7,525	13,260	(12,628)	8,157

	The Group			
	2015			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Salaries and bonuses	6,590	8,064	(7,298)	7,356
Employee welfare	–	1,217	(1,217)	–
Social insurance	30	1,557	(1,545)	42
Housing provident fund	27	723	(727)	23
Labor union funds and employee education expense	84	278	(262)	100
Others	2	657	(655)	4
Total	6,733	12,496	(11,704)	7,525

The Bank				
2016				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Salaries and bonuses	7,293	9,286	(8,659)	7,920
Employee welfare	–	360	(360)	–
Social insurance	37	1,789	(1,777)	49
Housing provident fund	23	735	(745)	13
Labor union funds and employee education expense	95	277	(302)	70
Others	–	671	(671)	–
Total	7,448	13,118	(12,514)	8,052

The Bank				
2015				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Salaries and bonuses	6,538	7,979	(7,224)	7,293
Employee welfare	–	1,205	(1,205)	–
Social insurance	27	1,543	(1,533)	37
Housing provident fund	27	719	(723)	23
Labor union funds and employee education expense	80	275	(260)	95
Others	–	655	(655)	–
Total	6,672	12,376	(11,600)	7,448

24. Taxes and dues payable

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Enterprise income tax	4,147	3,118	4,020	3,067
VAT	985	–	976	–
Business tax and surcharges	125	1,139	124	1,138
Others	197	126	193	121
Total	5,454	4,383	5,313	4,326

25. Interest payable

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Interest of deposits from customers	11,244	13,226	11,142	13,150
Interest of debt obligations payable	1,419	376	1,419	376
Interest of due to central banks	902	406	902	406
Interest of due from banks and other financial institutions	711	1,403	713	1,406
Interest of placements from banks and other financial institutions	301	197	40	22
Interest of financial assets under repurchase agreements	78	73	78	73
Total	14,655	15,681	14,294	15,433

26. Debt obligations payable

	The Group and the Bank	
	31 December 2016	31 December 2015
Bonds payable		
Mixed capital bonds	(1)	4,000
Financial bonds	(2)	41,000
Tier-2 capital bonds	(3)	10,000
Subtotal		55,000
Certificates of deposit with banks and other financial institutions	(4)	213,184
Total		268,184

(1) Mixed capital bonds

As approved by the CBRC and PBOC, the Bank issued RMB4 billion of mixed capital bonds from 26 to 27 June 2007. The bonds have a term of 15 years; and the issuer has one option to redeem all or part of the bonds at face value at the end of the tenth year to the maturity.

This issue of the bonds has RMB2.4 billion with a fixed interest rate. The initial issuing interest rate of the bonds with a fixed interest rate as determined through bookkeeping files is 5.89%. In case that the issuer does not exercise the advance redemption option on the last day of the tenth year, commencing from the 11th interest accrual year, the interest of the bonds shall increase by 300BPs on the basis of the initial issuing interest rate to 8.89%.

This issue of bonds also has RMB1.6 billion with floating interest rates. The annual interest rate of the bonds with floating interest rates is the sum of the benchmark interest rate and the basic interest margin. This benchmark interest rate is determined based on the interest rate of the one-year time savings deposits for lump-sum withdrawal published by PBOC applicable to the first issuing date and the value date of other interest accrual years. The basic interest margin of the first 10 years is 2%. In case that the issuer does not exercise the advance redemption option on the last day of the tenth year, commencing from the 11th interest year, the interest of the bonds shall increase by 100BPs on the basis of the initial issuing interest margin to 3%.

The value date of the bonds was 27 June 2007. In case that the issuer does not exercise the redemption option, the interest period of the bonds will be from 27 June 2007 to 26 June 2022. Otherwise, the honoring date of the bonds redeemed shall be the honoring date as determined in the redemption announcement.

(2) Financial bonds

(i) As approved by the National Development and Reform Commission (NDRC) and PBOC, the Bank issued three-year offshore advanced RMB bonds on 30 June 2014 in Hong Kong Special Administration Region of People's Republic of China, involving the size of RMB1 billion. The coupon rate is fixed at 4.95% and the interest will be paid semiannually. The value date is 30 June 2014 and the maturity date is 30 June 2017.

(ii) As approved by the CBRC and PBOC, the Bank issued the financial bonds of Hua Xia Bank Co., Ltd. for 2016 from 3 to 7 March 2016 and the issuance volume was RMB40 billion. This issue of bonds has two types. The type one bonds have an issuance volume of RMB15 billion with a term of three years. The coupon rate is fixed at 3.03%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2019. The type two bonds have an issuance volume of RMB25 billion with a term of five years. The coupon rate is fixed at 3.25%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2021.

(3) Tier-2 capital bonds

As approved by the CBRC and PBOC, the Bank issued the tier-2 capital bonds of Hua Xia Bank Co., Ltd. for 2014 from 24 to 25 July 2014 and the issuance volume was RMB10 billion. The bonds are 10-year bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all or part of bonds at face value.

The coupon rate is fixed at 6.14% and the interest will be paid semiannually. The value date is 25 July 2014 and the maturity date is 25 July 2024 if the issuer does not exercise its redemption right or 25 July 2019 for the part redeemed if the issuer exercises its redemption right.

(4) Certificates of deposit with banks and other financial institutions

As at 31 December 2016, there were 156 outstanding certificates of deposit with banks and financial institutions with the total face value of RMB216.63 billion and terms of 1 month to 3 year. Except four types of certificates of deposit with banks and other financial institutions, whose interest are paid quarterly, are issued at fixed rates, all the other types are issued in discount.

27. Other liabilities

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Agency collection for asset securitization business	15,140	2,538	15,140	2,538
Security deposit for financial lease	3,937	3,746	–	–
Deferred income	1,823	1,381	538	344
On-lending	1,310	1,144	1,310	1,144
Funds to be settled and cleared payable	649	386	649	386
Others	1,596	1,848	1,248	1,319
Total	24,455	11,043	18,885	5,731

28. Share capital

	31 December 2016		31 December 2015	
	Total number of shares (million)	Nominal amount	Total number of shares (million)	Nominal amount
A shares with par value of RMB1 per share registered, issued and paid in full amount	10,686	10,686	10,686	10,686

Note: A shares refer to ordinary shares domestically offered, and subscribed and traded in Renminbi.

On 26 April 2016, 2.9 billion shares subject to restrictions on sales of the Bank were circulated. There were no such shares on 31 December 2016 (on 1 December 2015, the Bank had 2.9 billion A shares subject to restrictions on sales with a face value of RMB1).

29. Equity instrument

On 23 February 2016, the Bank was approved by the CBRC to privately issue up to 200 million domestic preference shares and the par value of each shares is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership).

Information on outstanding preference shares at the year end:

Outstanding financial instrument	Issuing time	Accounting category	Dividend rate	Issuing price	Number	Amount	Maturity date	Share conversion	
								condition	Conversion
Preference shares	March 2016	Equity instrument	Note 1	RMB/share	Million shares	RMB millions	No maturity day	Note 2	No conversion

Note 1: These preference shares were issued at a dividend rate which can be adjusted for several periods. Every five years is a interest period from the payment deadline, and the dividend rate remains the same in each interest period. The dividend rate for the first interest period was determined as 4.20% by the Board of Directors of the Bank authorized by the General Meeting of Shareholders after taking into account the national policies, market conditions, specific conditions of the Bank, the demands of investors, etc by way of inquiry. The coupon dividend rate of preference shares was no higher than the annual ROE of the Bank in the latest two accounting years. The coupon dividend rate consists of benchmark interest rate and fixed premium. The bench mark interest rate is the arithmetic mean (rounded to 0.01%) of the five-year treasury bonds' yield rate in yield rate curve of the Chinese interbank fixed rate treasury bonds published by ChinaBond. com (or other website recognized by the China Government Securities Depository Trust & Clearing Co., Ltd.) for 20 trading days before the deadline for payment of these preference shares (28 March 2016) or the adjustment day of benchmark interest rate (i.e. the day when five years passes after the payment deadline, 28 March) (excluding the day), and it will be adjusted every five years from the deadline for payment of the preference shares. The fixed premium was determined as 1.61% which was the dividend rate of the first interest period 4.20% deducted by the benchmark interest rate 2.59%, and will not be adjusted. If the five-year treasury bonds' yield rate is not accessible in the future on the adjustment day of benchmark interest rate, the benchmark interest rate or its determination principle will be determined upon negotiation between the company and preference shareholders as required by the regulator.

Note 2:

(1) When the trigger event of other tier-1 capital instruments takes place, i.e. the core tier-1 capital adequacy ratio becomes as low as 5.125% (or below), the Bank is entitled to convert the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders so as to recover the Bank's core tier-1 capital adequacy ratio to 5.125%. If some preference shares are converted, the preference shares issued this time will be converted based on the same ratio and under the same conditions. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions.

(2) When the trigger event of tier-2 capital instruments takes place, the Bank is entitled to convert all the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions. The trigger event of tier-2 capital instruments is the earlier one in (1) the CBRC determines that the Bank will not survive if it does not conduct share conversion or write-down and (2) the relevant authorities determine that the Bank will not survive if it does not obtain capital injection from the public sector or the support with the same effect.

Main provisions:

The Bank will pay the dividend of the preference shares with cash. The dividends of preference shares issued this time will not be accumulated, i.e. the dividends which are not distributed in full to their shareholders will not be accumulated to those which will be distributed for the next interest period, and such act will not constitute breach of contract. The shareholders of the preference shareholders issued this time will not participate in the distribution of residue profits along with ordinary shareholders after being paid the dividends as per the coupon dividend rate.

Subject to ensuring the capital adequacy ratio satisfy the regulatory requirements, the Bank may distribute dividends to preference shareholders if there are after-tax profit after it replenish losses and appropriates legal reserve and general reserve. The dividends of preference shares will be distributed later than that of ordinary shares, and their payment is not linked to the rating of the Bank, and will not be adjusted along with the changes in rating. With approval of the General Meeting of Shareholders, the Bank is entitled to cancel the dividend distribution of the preference shares issued this time in whole or in part under any circumstances, and such act does not constitute breach of contract. The Bank may repay other matured debts with the profit which is canceled to pay dividends at its own discretion. Canceling dividend distribution will not restrict the Bank from any acts except distributing dividends to ordinary shareholders. When exercising the above rights, the Bank will fully consider the rights and interests of preference shareholders. If the Bank decides to cancel the payment of dividends to preference shareholders, it will notify them at least ten working days before the dividend payment day. If it decides to cancel the dividend payment of these preference shares in whole or in part, the Bank will not distribute dividends to ordinary shareholders before the declaration and distribution of dividends of the preference shares.

The redemption right of these preference shares is vested in the Bank. The approval of the CBRC is the prerequisite to the exercising of this right. The preference shareholders have no right to request the Bank to buy back the preference shares, and should not hold the expectation that the preference shares may be bought back by the Bank. These preference shares are not subject to a put-back provision, i.e. the preference shareholders have no right to sell their preference shares back to the Bank.

The price of initial forced conversion is the average trading price of ordinary shares of the Bank 20 trading days before the day of announcement on the resolution of the Board of Directors which reviews the issuance of the preference shares issued this time (17 April 2015), i.e. RMB14/share. Since the day when the Bank's Board of Directors approves the plan on the issuance of the preference shares, if any changes in the Bank's shares take place as a result of the Bank's distribution of stock dividends, conversion into share capital, issuance of new shares (excluding the share capital increase due to conversion of financing instruments with provision for the possibility of conversion into ordinary shares, such as preference shares, convertible bank bonds, etc.), allotment of shares, the price of forced share conversion will be adjusted one by one, and relevant information disclosure will be conducted as required.

The Bank converted capital reserve into share capital at a ratio of 2 for 10 shares on 8 July 2015. The price of forced share conversion is 11.67 after this conversion.

As of 31 December 2016, the net funds of RMB19,978 million raised by the Bank were all used for replenish tier-1 capital.

Information on outstanding preference shares:

	1 January 2016		Increase over the year		Decrease over the year		31 December 2016	
	Amount	Book value	Amount	Book value	Amount	Book value	Amount	Book value
	1 million shares	RMB1 million	1 million shares	RMB1 million	1 million shares	RMB1 million	1 million shares	RMB1 million
Preference shares	-	-	200	20,000	-	-	200	20,000
Issuing cost								(22)
Total other equity instruments							200	19,978

Information

	31 December 2016	31 December 2015
	RMB1 million	RMB1 million
Equity attributable to parent company		
Equity attributable to ordinary shareholders of parent company	132,206	117,678
Equity attributable to other shareholders of parent company	19,978	-
Of which: Net profit	-	-
Total comprehensive income	-	-
Distributed profit for the period	-	-
Accumulated undistributed dividend	-	-
Equity attributable to minority shareholders	789	710
Total shareholders' equity	152,973	118,388

30. Capital reserve

The Group				
2016				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	28,761	-	-	28,761
Investment by minority shareholders at premium	1	-	-	1
Total	28,762	-	-	28,762

The Group				
2015				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	30,542	-	(1,781)	28,761
Investment by minority shareholders at premium	1	-	-	1
Total	30,543	-	(1,781)	28,762

The Bank				
2016				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	28,761	-	-	28,761

The Bank				
2015				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	30,542	-	(1,781)	28,761

31. Surplus reserve

	The Group and the Bank	
	31 December 2016	31 December 2015
Statutory surplus reserve	9,660	7,802
Discretionary surplus reserve	111	111
Total	9,771	7,913

(1) According to relevant laws of the People's Republic of China, the Bank must appropriate statutory surplus reserve at 10% of the net profit based on the PRC GAAP until the statutory surplus reserve accumulated to 50% of the share capital. After the statutory surplus reserve is appropriated, the Bank can determine its amount of discretionary surplus reserve on its own upon approval by the General Meeting of Shareholders.

(2) As at 31 December 2016, statutory surplus reserve accumulatively appropriated by the Bank had exceeded 50% of the share capital and the statutory surplus reserve in excess of 50% shall be subject to approval by the General Meeting of Shareholders.

(3) For details on surplus reserve, please refer to Note VIII-33 Undistributed Profit.

32. General reserve

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
General reserve	24,605	21,451	24,269	21,427

(1) As of 1 July 2012, the Bank has set aside general reserve in accordance with the Administrative Measures for Reserve Provisioning of Financial Enterprises (C.J. [2012] No. 20). The general reserve is treated as profit distribution and its balance shall not be lower than 1.5% of the ending balance of risk assets in principle. It shall be in place within 5 years as of 1 July 2012.

(2) For details on surplus reserve, please refer to Note VIII-33 Undistributed Profit.

(3) According to the regulatory rules, some subsidiaries of the Bank should appropriate certain amount from the net profit as general reserve. Such general reserve is treated as profit distribution.

33. Undistributed profit

(1) Profit distribution for 2016

The plan for profit distribution and conversion of capital reserve to share capital for 2016 that is passed by the Board of Directors and submitted to the General Meeting of Shareholders for approval on 27 April 2017 is as follows:

(i) Set aside statutory surplus reserve of RMB1,932,263,340 based on the Bank's net profit for 2016 which is RMB19,322,633,403;

(ii) Set aside general reserve of RMB5,198,239,240, after which the Bank's balance of general reserve reaches 1.5% of the outstanding risk assets on 31 December 2016;

(iii) Distribute dividends to all shareholders at the rate of RMB1.81 (pre-tax) per 10 shares, totaling RMB1,934,088,570, based on the Bank's total share capital of 10,685,572,211 shares at the end of 2016.

(iv) Convert the capital reserve into share capital at a ratio of 2 for 10 shares on the basis of 10,685,572,211 shares at 31 December 2016, which increases the registered capital by RMB2,137,114,442. After the conversion, the total share capital records 12,822,686,653, equivalent to RMB12,822,686,653.

The above profit distribution plan is subject to approval by the Bank's General Meeting of Shareholders. Before that, accounting treatment is not made to the proposed surplus reserve, general reserve and dividend distribution.

(v) The interest accrual period for preference shares issued in 2016 is from 28 March 2016 and 27 March 2017 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million.

The above plan for distribution of dividends of preference shares was approved by the Board of Directors on 18 January 2017.

(2) Profit distribution for 2015

The Bank has implemented the profit distribution plan for 2015 that was approved by the General Meeting of Shareholders on 13 May 2016 and announced by the Bank on 2 July 2016. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB1,858,117,354 based on the Bank's net profit for 2015 which is RMB18,581,173,539; such statutory surplus is recorded in the balance sheet of the Bank and the Group dated 31 December 2016 as a subsequent event;

(ii) Set aside general reserve of RMB2,843,306,974, after which the Bank's balance of general reserve reaches 1.5% of the outstanding risk assets on 31 December 2015; such general reserve has been recorded in the balance sheet of the Bank and the Group dated 31 December 2016.

(iii) Distribute dividends to all shareholders at the rate of RMB3.63 (pre-tax) per 10 shares, totaling RMB3,878,862,713, based on the Bank's total share capital of 10,685,572,211 shares at the end of 2016.

(3) Profit distribution for 2014

The Bank has implemented the profit distribution plan for 2014 that was approved by the General Meeting of Shareholders on 12 May 2015 and announced by the Bank on 2 July 2015. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB1,779,497,132 based on the Bank's net profit for 2014 which is RMB17,794,971,318; such statutory surplus is recorded in the balance sheet of the Bank and the Group dated 31 December 2015 as a subsequent event;

(ii) Set aside general reserve of RMB4,326,740,119, after which the Bank's balance of general reserve reaches 1.5% of the outstanding risk assets on 31 December 2014; such general reserve has been recorded in the balance sheet of the Bank and the Group dated 31 December 2015.

(iii) Distribute dividends to all shareholders at the rate of RMB4.35 (pre-tax) per 10 shares, totaling RMB3,873,519,926, based on the Bank's total share capital of 8,904,643,509 shares at the end of 2014.

(iv) Convert the capital reserve into share capital at a ratio of 2 for 10 shares on the basis of 8,904,643,509 shares at 31 December 2004, which increases the registered capital by RMB1,780,928,702. Afterwards, the total share capital records 10,685,572,211, equivalent to RMB10,685,572,211; such conversion is recorded in the balance sheet of the Bank and the Group dated 31 December 2015.

34. Net interest income

	The Group		The Bank	
	2016	2015	2016	2015
Interest income				
Loans and advances to customers	59,990	60,612	57,953	58,740
Of which: Corporate loans and advances	49,433	50,273	47,429	48,435
Personal loans and advances	9,726	10,035	9,693	10,001
Discounted bills	831	304	831	304
Held-to-maturity investments	8,755	6,220	8,755	6,220
Account receivable held for investment	7,258	9,791	7,257	9,791
Balances with central banks	3,318	3,663	3,316	3,661
Available-for-sale financial assets	3,066	3,173	3,066	3,173
Financial assets held under resale agreements	2,867	4,989	2,867	4,989
Due from banks and other financial institutions	1,670	1,627	1,659	1,623
Placements with banks and other financial institutions	971	787	971	802
Financial assets designated at fair value through profit or loss	347	462	347	462
Subtotal	88,242	91,324	86,191	89,461
Interest expense				
Deposits taken	(22,519)	(29,574)	(22,497)	(29,552)
Debt obligations payable	(6,094)	(1,596)	(6,094)	(1,596)
Due to banks and other financial institutions	(5,685)	(10,415)	(5,715)	(10,455)
Placements from banks and other financial institutions	(1,816)	(1,601)	(572)	(336)
Due to central banks	(1,726)	(924)	(1,724)	(923)
Repurchase agreements	(1,413)	(1,131)	(1,413)	(1,131)
Subtotal	(39,253)	(45,241)	(38,015)	(43,993)
Net interest income	48,989	46,083	48,176	45,468
Of which: Interest income from impaired financial assets identified	728	355	728	355

35. Net fee and commission income

	The Group		The Bank	
	2016	2015	2016	2015
Fee and commission income				
Wealth management service	5,840	5,431	5,840	5,431
Bank card service	4,999	3,097	4,999	3,097
Agency business	1,838	1,657	1,838	1,657
Credit commitments	1,460	1,621	1,460	1,620
Custody and other fiduciary services	890	1,042	890	1,042
Leasing service	572	303	–	–
Others	525	284	524	284
Subtotal	16,124	13,435	15,551	13,131
Fee and commission expenses				
Fee expense	(1,468)	(1,063)	(1,448)	(1,039)
Net fee and commission income	14,656	12,372	14,103	12,092

Fee and commission expenses mainly include expenses for UnionPay card services, agency settlement, international agency payment, etc.

36. Investment gains/(losses)

	The Group and the Bank	
	2016	2015
Investment gains resulted from trading of available-for-sale financial assets	120	90
Investment gains resulted from trading of financial assets measured at fair value through profit or loss	38	56
Others	559	(24)
Total	717	122

37. Gains/(losses) from the changes in fair value

	The Group and the Bank	
	2016	2015
Financial assets measured at fair value through profit or loss	(182)	112
Derivative financial instruments	(312)	(47)
Total	(494)	65

38. Exchange gain

Foreign exchange gains mainly include income from foreign exchange differences and translation differences from foreign currency-denominated currency assets and liabilities.

39. Tax and surcharges

	The Group		The Bank	
	2016	2015	2016	2015
Business tax	1,264	3,837	1,218	3,812
Urban maintenance and construction tax	308	268	302	266
Education fee and surcharges	220	192	216	191
Total	1,941	4,446	1,880	4,413

40. General and administrative expenses

		The Group		The Bank	
		2016	2015	2016	2015
Staff remuneration and welfare	(1)	13,260	12,496	13,118	12,376
Business expenses		5,886	5,142	5,851	5,106
Depreciation and amortization		2,940	2,828	2,909	2,799
Total		22,086	20,466	21,878	20,281

(1) Staff remuneration and welfare

	The Group		The Bank	
	2016	2015	2016	2015
Salaries and bonuses	9,390	8,064	9,286	7,979
Social insurance	1,806	1,557	1,789	1,543
Employee welfare	369	1,217	360	1,205
Housing provident fund	739	723	735	719
Labor union funds and employee education expense	282	278	277	275
Others	674	657	671	655
Total	13,260	12,496	13,118	12,376

41. Asset impairment loss

	The Group		The Bank	
	2016	2015	2016	2015
Loans and advances to customers	13,411	8,818	12,866	8,559
Available-for-sale financial assets	2	200	2	200
Reposessed assets to be disposed of	167	172	167	172
Due from banks and other financial institutions	(23)	32	(23)	32
Receivables and payment on account	142	(65)	135	(65)
Account receivable held for investment	170	(179)	170	(179)
Placements with banks and other financial institutions	(3)	-	(3)	-
Others	(1)	1	(1)	1
Total	13,865	8,979	13,313	8,720

42. Income tax expense

	The Group		The Bank	
	2016	2015	2016	2015
Current income tax expense	7,478	6,808	7,211	6,643
Deferred income tax expense	(991)	(555)	(872)	(511)
Total	6,487	6,253	6,339	6,132

Adjustments to income tax expense and accounting profit are presented as follows:

	The Group		The Bank	
	2016	2015	2016	2015
Pre-tax profit	26,243	25,205	25,662	24,713
Income tax at statutory tax rate of 25%	6,561	6,300	6,415	6,178
Adjustment of current-period income tax during previous years	–	(1)	–	–
Plus: Tax effect of non-deductable expense	1,312	741	1,310	741
Less: Tax effect of tax-exempt income	(1,386)	(787)	(1,386)	(787)
Total	6,487	6,253	6,339	6,132

43. Other comprehensive income

Other comprehensive income to be classified as profit/loss

The Group and the Bank					
2016					
Changes in other comprehensive income for the year					
	Opening balance	Increase over the year	Decrease over the year	Sub-total of changes	Ending balance
Net fair value changes of available-for-sale financial assets	1,723	–	(1,693)	(1,693)	30
Impact of changes in fair value of available-for-sale financial assets on income tax	(431)	–	423	423	(8)
Total	1,292	–	(1,270)	(1,270)	22

The Group and the Bank

2015

Changes in other comprehensive income for the year

	Opening balance	Increase over the year	Decrease over the year	Sub-total of changes	Ending balance
Net fair value changes of available-for-sale financial assets	108	1,615	-	1,615	1,723
Impact of changes in fair value of available-for-sale financial assets on income tax	(27)	(404)	-	(404)	(431)
Total	81	1,211	-	1,211	1,292

Other comprehensive income items abovementioned will be reclassified as profit/loss in the subsequent accounting periods when the specified conditions are met. Except those mentioned above, the Bank has no other comprehensive income items that can't be reclassified as profit/loss in the subsequent accounting periods.

44. Earnings per share

	2016	2015
Net profit attributable to shareholders of the parent company in the year	19,677	18,883
Weighted average ordinary shares in issue (million shares)	10,686	10,686
Basic earnings per share (RMB yuan)	1.84	1.77

At the end of 2015, the Company had no potential diluted ordinary shares.

45. Cash and cash equivalents

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Cash on hand	3,210	3,130	3,200	3,119
Balances with central banks	22,692	61,554	22,159	61,440
Due from banks, placements with banks and other financial institutions and financial assets under reverse repurchase agreements with the original term less than three months	233,503	266,284	233,421	265,712
Total	259,405	330,968	258,780	330,271

46. Supplementary information on the Statement of Cash Flows

	The Group		The Bank	
	2016	2015	2016	2015
Net profit adjusted into cash flows from operating activities:				
Net profit	19,756	18,952	19,323	18,581
Plus: Impairment losses on assets	13,865	8,979	13,313	8,720
Fixed assets	13	1,094	1,011	1,090
Amortization of intangible assets	14	3	2	2
Amortization on long-term prepaid expenses	1,843	1,815	1,817	1,790
Interest income from securities investment	(19,426)	(19,646)	(19,425)	(19,646)
Net gains on disposal of fixed assets, intangible assets and other long-term assets	(2)	(33)	(2)	(33)
Loss/(gain) on changes in fair value	494	(65)	494	(65)
Investment loss/(gain)	(717)	(122)	(717)	(122)
Exchange loss	805	337	805	337
Deferred income tax	(991)	(555)	(872)	(511)
Interest income from impaired financial assets identified	(728)	(355)	(728)	(355)
Interest expense on bonds issued	1,915	916	1,915	916
Decrease/(increase) of operating receivables	(137,085)	(120,505)	(128,439)	(111,280)
Increase/(decrease) of operating payables	259,086	157,649	250,508	148,478
Net increase in cash and cash equivalents	139,912	48,380	139,084	47,819
Net change of cash and cash equivalents:				
Closing balance of cash and cash equivalents	259,405	330,968	258,780	330,271
Less: Opening balance of cash and cash equivalents	(330,968)	(220,228)	(330,271)	(220,065)
Net change in cash and cash equivalents	(71,563)	110,740	(71,491)	110,206

IX. Segment Report

The Group determines the operating segments according to the organizational framework, management requirement and internal reporting system, and on this basis, determines the reporting segments.

An operating segment refers to the component within the Group meeting the following conditions at the same time: (1) such component can generate income and incur expenses in the daily activities; (2) the management of the enterprise can regularly assess the operating results of the component to determine the resources allocated to it and assess its performance; (3) the enterprise can obtain the accounting information relating to the component's financial position, operating results and cash flows.

The Group's reporting segments include Northern and Northeastern China, Eastern China, Southern and Central China and Western China. Particularly speaking:

(1) Northern and Northeastern China: Beijing, Tianjin, Hebei, Shandong, Liaoning, Inner Mongolia, Jilin and Heilongjiang;

(2) Eastern China: Jiangsu, Shanghai, Zhejiang and Anhui;

(3) Southern and Central China: Guangdong, Guangxi, Hubei, Hunan, Shanxi, Fujian, Henan, Jiangxi and Hainan; and

(4) Western China: Shaanxi, Xinjiang, Sichuan, Chongqing, Yunnan, Ningxia and Guizhou.

Accounting policies of the operating segments maintain the same with the major accounting policies of the Group.

When presenting information by operating segment, operating income is divided on the basis of location of branches generating income. Segment assets and capital expenditure are divided by the location of the related assets.

2016	Northern and Northeastern China	Eastern China	Central China and Southern China	Western China	Offset among segments	Total
Operating income	30,444	14,001	11,290	8,290	-	64,025
Net interest income	18,904	12,699	10,259	7,127	-	48,989
Of which:						
Net external interest income	22,444	11,082	8,840	6,623	-	48,989
Segmental net interest income	(3,540)	1,617	1,419	504	-	-
Net fee and commission income	11,328	1,209	981	1,138	-	14,656
Other net operating income	212	93	50	25	-	380
Operating expenses	(14,762)	(9,535)	(8,264)	(5,345)	-	(37,906)
Operating profit	15,682	4,466	3,026	2,945	-	26,119
Net non-operating income	29	26	16	53	-	124
Gross profit	15,711	4,492	3,042	2,998	-	26,243
Supplementary information						
1. Depreciation and amortization expenses	1,476	598	525	341	-	2,940
2. Capital expenditures	1,584	662	490	382	-	3,118
3. Impairment losses on assets	4,224	4,106	3,148	2,387	-	13,865
31 December 2016						
Segment assets	1,910,517	640,312	625,117	361,632	(1,187,327)	2,350,251
Undistributed assets						5,984
Total assets						2,356,235
Segment liabilities	1,775,645	636,587	622,687	355,670	(1,187,327)	2,203,262
Undistributed liabilities						-
Total Liabilities						2,203,262

2015	Northern and Northeastern China	Eastern China	Central China and Southern China	Western China	Offset among segments	Total
Operating income	24,906	13,910	11,644	8,386	(2)	58,844
Net interest income	16,895	12,121	9,963	7,104	-	46,083
Of which:						
Net external interest income	20,814	10,321	8,612	6,336	-	46,083
Segmental net interest income	(3,919)	1,800	1,351	768	-	-
Net fee and commission income	7,829	1,705	1,629	1,209	-	12,372
Other net operating income	182	84	52	73	(2)	389
Operating expenses	(12,063)	(9,702)	(7,624)	(4,523)	2	(33,910)
Operating profit	12,843	4,208	4,020	3,863	-	24,934
Net non-operating income	20	8	146	97	-	271
Gross profit	12,863	4,216	4,166	3,960	-	25,205
Supplementary information						
1. Depreciation and amortization expenses	1,472	576	468	312	-	2,828
2. Capital expenditures	1,503	1,675	974	690	-	4,842
3. Impairment losses on assets	1,105	3,811	2,585	1,478	-	8,979
31 December 2015						
Segment assets	1,862,237	567,052	568,522	384,996	(1,366,773)	2,016,034
Undistributed assets						4,570
Total assets						2,020,604
Segment liabilities	1,762,051	563,627	564,993	378,318	(1,366,773)	1,902,216
Undistributed liabilities						-
Total Liabilities						1,902,216

X. Related Parties and Related Party Transactions

1. Related parties

There is no related party that controls or jointly controls the Bank. Other related parties are as follows:

(1) Shareholders holding no less than 5% shares in the Bank at the end of the year and exerting significant influence on the Bank

Name of related shareholder	Register place	Legal Representative/ CEO	Business nature	Registered capital	Shareholding percentage (%)	Voting rights percentage (%)
Shougang Corporation	Beijing	Jin Wei	Industry, construction, geological exploration, transportation, etc.	RMB7,264 million	20.28	20.28
PICC Property and Casualty Company Limited	Beijing	Wu Yan	RMB and foreign currency issuance and related reinsurance; services and consultancy of insurance and reinsurance; handling relevant business on behalf of insurance institutions; investment and fund application, etc.	RMB148,29 million	19.99	19.99
SGCC Yingda International Holdings Corporation, Ltd	Beijing	Xin Xuwu	Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory	RMB19 billion	18.24	18.24

On 28 December 2015, PICC Property and Casualty Company Limited (PICC P&C) signed the Equity Transfer Agreement with DEUTSCHE BANKLUXEMBOURG S.A., DEUTSCHE BANK AKTIENGESELLSCHAFT and SAL.OPPENHEIM JR. & CIE.KOMMANDITGESELLSCHAFT AUF AKTIEN (collectively referred to as "DEUTSCHE BANK parties") that PICC P&C would accept 2,136,045,885 shares of the Bank held by the DEUTSCHE BANK parties, which account for 19.99% of the total share capital of the Bank, and the equity transfer completed on 17 November 2016.

(2) Subsidiaries of the Bank

Please refer to Note VII Business Combination and Consolidated Financial Statements.

(3) Other related parties

Other related parties include:

(i) key management personnel (directors, supervisors and senior executives of the Head Office), or their close family members;

(ii) enterprises controlled or jointly controlled by key management personnel or their close family members;

(iii) State Grid Corporation of China (parent company of SGCC Yingda International Holdings Corporation, Ltd., the related party shareholder of the Bank) and its subsidiaries; PICC Insurance Group Company Limited (parent company of PICC Property and Casualty Company Limited, the related party shareholder of the Bank) and its subsidiaries.

2. Related party transactions

Related party transactions between the Bank and its related parties, whose pricing will be based on general transaction price according to normal commercial terms, shall be subject to the approval of corresponding decision-making institution by transaction type.

(1) Related party transactions with shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank and their subsidiaries

	31 December 2016		31 December 2015	
	Transaction balance	Percentage (%) ⁽ⁱ⁾	Transaction balance	Percentage (%) ⁽ⁱ⁾
Assets				
Loans and advances to customers Loans	8,298	0.70	7,470	0.90
Bills of exchange for imports/exports	–	–	31	0.83
Discounting	–	–	224	0.71
Discounting	73	0.53	16	0.15
Other assets	139	2.39	–	–
Liabilities				
Placements from banks and other financial institutions	–	–	44	0.07
Deposits taken	9,207	0.67	1,385	0.10
Due to banks and other financial institutions	49	0.02	14	0.01
Interest payable	212	1.45	9	0.06
Off-balance-sheet items				
Letters of guarantee issued	26	0.13	13	0.08
Letters of credit issued	1,055	1.44	869	1.24
Bank acceptances	1,738	0.64	1,273	0.40

	2016		2015	
	Transaction balance	Percentage (%) ⁽ⁱ⁾	Transaction balance	Percentage (%) ⁽ⁱ⁾
Interest income	592	0.67	517	0.57
Interest expense	782	1.99	34	0.08

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(ii) Based on the description of related parties in Paragraph iii of Article 71 in the Administrative Measures for the Disclosure of Information of Listed Companies, the legal person holding more than 5% of the listed company or the persons acting in concert in the previous 12 months or in the future 12 months as per relevant agreement are the related legal persons of the listed company. Therefore, the above disclosed data include Deutsch Bank with an original shareholding ratio of 19.99%.

(2) Related party transactions with subsidiaries

	31 December 2016	31 December 2015
Due from banks and other financial institutions	20	30
Due to banks and other financial institutions	1,078	3,265

Related party transactions between the Bank and its subsidiaries are offset in the preparation of the consolidated financial statements.

(3) Related parties transactions with other related parties

	31 December 2016		31 December 2015	
	Transaction balance	Percentage (%) ⁽ⁱ⁾	Transaction balance	Percentage (%) ⁽ⁱ⁾
Assets				
Loans and advances to customers	565	0.05	268	0.03
Available-for-sale financial assets	950	1.03	950	1.30
Held-to-maturity investments	500	0.14	600	0.31
Discounting	95	0.69	60	0.57
Liabilities				
Deposits taken	1,788	0.13	587	0.04
Due to banks and other financial institutions	813	0.36	2	-
Interest payable	12	0.08	4	0.03
Off-balance-sheet items				
Letters of guarantee issued	1	-	16	0.10
Letters of credit issued	-	-	-	-
Bank acceptances	98	0.04	88	0.03

	2016		2015	
	Transaction balance	Percentage (%) ⁽ⁱ⁾	Transaction balance	Percentage (%) ⁽ⁱ⁾
Interest income	159	0.18	102	0.11
Interest expense	114	0.29	14	0.03

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(4) Remuneration of key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including directors, supervisors and senior management members. Directors of the Bank are of the view that related party transactions between key management personnel stated above and the Bank are carried out under normal commercial terms as the same with those with non-related parties.

Remunerations of directors, supervisors and key senior management members received from the Bank are set out below:

	2016	2015
Remunerations	11	13

The final total compensation before tax for Chairman, President, Chairman of the Board of Supervisors, employee representative supervisors and other senior management members of the Bank is in the process of determination, and the remaining part will be disclosed separately after determination. Nevertheless, the Management of the Group expects that the difference between the above amount and the final compensation amount will not pose material influence on the consolidated financial statements of 2016.

(5) Enterprise annuity

Except the normal fund contribution to enterprise annuity created by the Bank and general banking businesses, the Bank has no related party transactions in 2016 and 2015.

XI. Contingencies and Commitments**1. Pending legal proceedings**

As at 31 December 2016, the claimed amount of pending legal proceedings where the Bank or any of its subsidiaries is the defendant or the third party totaled RMB481 million (RMB309 million as at 31 December 2015). Based on court order or suggestions of legal consultants, the Group has set aside provisions for losses arising from legal proceedings against it. The Management of the Group believes that the final court decision on these legal proceedings will not impose material impact on the Group's financial position or operation.

2. Capital expenditure commitments

	Note	The Group and the Bank	
		31 December 2016	31 December 2015
Capital commitments signed but not confirmed in the financial statements			
Commitment to purchase long-term assets	(1)	128	352
External investment commitments	(2)	60	60
Total		188	412

(1) Commitment to purchase long-term assets is the unpaid account estimated in construction-in process of the Bank.

(2) On 14 October 2010, the 25th meeting of the 5th Board of Directors of the Bank reviewed and approved the Proposal on Initiating the Setup of Songyang Hua Xia Rural Bank in Zhejiang, agreeing to contribute capital to the setup of a rural bank in Songyang, Zhejiang Province with the registered capital of RMB50 million to RMB100 million, of which the Bank held 51% (inclusive) – 60% of shares. As at 31 December 2016, the rural bank was yet to be established.

3. Credit commitments

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Bank acceptances	273,235	315,187	273,424	315,109
Letters of credit issued	73,508	69,991	73,508	69,991
Letters of guarantee issued	20,623	16,091	20,623	16,091
Irrevocable loan commitments	5,269	19,008	2,507	17,722
Unused credit card limit	103,363	32,796	103,363	32,796
Total	475,998	453,073	473,425	451,709

4. Financial lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable financial lease contracts signed by the Group as the leaser is as follows:

	The Group	
	31 December 2016	31 December 2015
Within 1 year	2,761	1,286

5. Operating lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable operating lease contracts signed by the Group and the Bank as the lessee is as follows:

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Within 1 year	1,503	1,393	1,480	1,386
1 – 2 years	1,337	1,186	1,315	1,184
2 – 3 years	1,198	1,061	1,179	1,059
3 – 5 years	1,698	1,669	1,671	1,663
Over 5 years	1,536	1,319	1,515	1,315
Total	7,272	6,628	7,160	6,607

6. Collateral

(1) Collateral assets

On the balance sheet date, the book value of assets used as collateral for transactions under repurchase agreements is as follows:

	The Group and the Bank	
	31 December 2016	31 December 2015
Bonds	107,644	71,115
Bills	231	10,774
Total	107,875	81,889

On 31 December 2016, the book value of financial assets under repurchase agreements of the Group was RMB106,696 million (31 December 2015: RMB80,491 million).

In addition, partial bond investment of the Group is used as collateral for on-lending, third-party lending, time deposits of commercial banks under cash management of the central treasury and mid-term credit facility of PBOC or as collateral according to regulatory requirements. On 31 December 2016, the book value of the above collateral was RMB171,110 million (31 December 2015: RMB53,805 million).

(2) Collateral received

The Group accepts such collateral as cash or securities in relevant business under reverse repurchase agreements. Some of the securities accepted can be sold or re-used as collateral. On 31 December 2016, the book value of such collateral as securities that can be sold or reused as collateral accepted by the Group was RMB1,392 million (31 December 2015: RMB100,293 million). On 31 December 2016, the Bank had no collateral that has been reused as collateral by the Group and should be returned upon maturity (31 December 2015: RMB7,919 million)

7. Government bonds underwriting and redemption

As a member of the underwriter group of savings government bonds of the Ministry of Finance (MOF), the Group underwrites and sells savings government bonds as an agent. Holders of savings government bonds may request redemption in advance and the Group is obliged to perform the duty of redemption. The Group is obliged to redeem the principal of the savings government bonds and the interest payable determined according to the early redemption agreement.

On 31 December 2016, the Group is obliged to redeem the savings government bond principal of RMB9,206 million (31 December 2015: RMB7,700 million). The original term of the above savings government bonds ranges from 1 to 5 years. The Management expects that the amount of redemption of these savings government bonds through the Group prior to maturity will not be material.

The MOF will not provide fund for the early redemption of these savings government bonds in a timely manner but is obliged to repay the principal and the interest upon maturity or according to documents issued.

8. Entrusted transaction

(1) Entrusted deposits and loans

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Entrusted loans	301,581	265,291	301,338	264,861
Entrusted loan funds	301,581	265,291	301,338	264,861

(2) Entrusted investments

	The Group and the Bank	
	31 December 2016	31 December 2015
Entrusted investments	716,278	411,912

Entrusted investment means that the Group manages customer assets as entrusted by the non-principal-guaranteed wealth management customer and the investment risk of entrusted assets is taken by the customer.

XII. Transfer of financial assets

Asset-backed securities

The Group conducts asset-backed securities transactions during the normal operation. The Group sells part of financial assets to the Special Purpose Trust (SPT), which then issues asset-backed securities to investors.

As at the transfer date, the book value of securitized financial assets of the Group for 2016 totaled RMB483,36 million. On 31 December 2016, the book value of the securities of the Group was RMB745 million (31 December 2015: RMB530 million).

During the above transfer of financial transfer, as the issuance consideration equaled to the book value of the target financial assets, the Group did not recognize any gains or losses. The Group will charge certain fees as underlying assets service provider subsequently. Although the Group sponsored the SPT, the Bank was not vested with the right of obtaining most of gains of the SPT nor the Bank bore most of risks of the SPT. Therefore, the Bank did not include the SPT into the consolidated management, that is, the SPT was not a component of the Group.

The Group transferred part of financial assets and nearly all risks (mainly including part of credit risk, prepayment risk and interest rate risk of the target financial assets) thereof and returns therefrom to other investors, so the Bank derecognized such part of financial assets.

The Group lost the right to use of such part of financial assets during the assets transfer period of asset-back securities transactions. Once the SPT established, such part of financial assets shall be discriminated from other assets without SPT. According to relevant transaction documents, in case of dissolution, liquidation, bankruptcy of the Bank or other entities under the Group, assets under the SPT shall not be subject to the liquidation.

Repurchase agreements

The Group conducted transactions under repurchase agreements with counterparties. On 31 December 2016, the book value of bond assets and bill assets sold by the Group under repurchase agreements totaled RMB107,875 million (31 December 2015: RMB81,889 million). At the same time, it undertook that it would repurchase such bonds or bills at the agreed-upon price on a preset future date. The sales income of the above bonds and bills was presented as financial assets under repurchase agreements, which was RMB106,696 million (31 December 2015: RMB80,491 million). According to the repurchase agreements, the legal ownership of the bonds and bills is not transferred during the transaction period. In addition, the Group shall not sell or mortgage such bonds and bills during the transaction period, without consent of both parties. Therefore, the Group deems that almost all the risks and compensations relating with such bonds and bills are retained within the Group. Consequently, the Group did not derecognize these bonds and bills from the consolidated financial statements; instead, it deemed them as collaterals for pledged loans acquired from counterparties. Claim of the counterparties is not limited to such transferred assets.

Credit assets transfers

In 2016, the Group disposed of loans with a book value of RMB6,865 million via transfer to third parties (2015: RMB4,344 million). The Group has transferred almost all the risk and compensation relating to the ownership of the above loans, and therefore it has been derecognized.

XIII. Structured entities

1. Interests and rights enjoyed in structured entities sponsored by the Group but excluded in the consolidated financial statements

Structured entities sponsored by the Group but excluded in the consolidated financial statements mainly include non-principal-guaranteed wealth management products and asset-backed securities issued by the Bank. The nature and purpose of these structured entities are to manage investors' assets and charge management fees. They raise fund by issuing investment products to investors.

As at the date of the balance sheet, the amount of unconsolidated structured entities sponsored by the Group and rights and interests therefrom are listed as follows:

The Group

31 December 2016					
	Sponsor amount	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Non-principal-guaranteed wealth management products	716,278	–	–	5,840	Fee income
Asset-backed securities	49,058	745	745	10	Fee income and interest income
Total	765,336	745	745	5,850	

31 December 2015					
	Sponsor amount	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Non-principal-guaranteed wealth management products	411,912	–	–	5,431	Fee income
Asset-backed securities	48,336	530	530	33	Fee income and interest income
Total	460,248	530	530	5,464	

As at 31 December 2016 and 31 December 2015, the Group provided no financial or other supports to structured entities excluded in the consolidated financial statements. It also has no plan to do so.

2. Rights and interests enjoyed in structured entities sponsored by third-party institutions

The Group enjoys rights and interests in structured entities sponsored by third-party institutions by directly holding investments. These structured entities mainly include beneficiary rights of assets and asset-backed securities whose nature and purpose are to manage investors' assets and charge management fees. They raise fund by issuing investment products to investors.

The book value and maximum loss exposure of rights and interests enjoyed by the Group in structured entities sponsored by third-party institutions by directly holding investments are presented as follows:

		The Group	
Items of the balance sheet		31 December 2016	31 December 2015
Beneficiary rights of assets	Account receivable held for investment	37,844	73,645
Wealth management products	Account receivable held for investment	76,205	–
Asset management plan of financial institutions	Account receivable held for investment	81,672	939
Asset-backed securities	Held-to-maturity investments	4,980	6,230
Asset-backed securities	Available-for-sale financial assets	5,396	–
Total		206,097	80,814

3. Consolidated structured entities

Consolidated structured entities of the Group were principal-guaranteed wealth management products issued by the Group.

XIV. Risk Management

1. Overview

The Group mainly faces credit risk, market risk and liquidity risk. Market risk includes exchange rate risk, interest rate risk and other price risks.

2. Risks management framework

The Management of the Group is responsible for determining the overall risk appetite, and reviewing and approving the risk management objectives and strategies of the Group.

The risk management framework: Senior Management of the Group is responsible for the overall and specific risk management, including implementing risk management strategies, measures and credit policies, approving the internal rules, measures and procedures concerning risk management and establishing a risk management department and other relevant departments to manage financial risks.

3. Credit risk

3.1. Credit risk management

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances, placements with banks and other financial institutions, inter-bank lending, bond investments, bill acceptance, L/C, and L/G. The credit risk management process of the Group confirms and manages the above risks by mainly focusing on pre-loan due diligence, credit rating, loan approval procedure, loan-granting management, post-lending monitoring and loan collection management procedure.

Before granting credit to a single customer, the Group will conduct credit appraisal first and regularly inspect the credit limit granted. The means for credit risk management include acquisition of collaterals and warranty. As for the off-balance-sheet credit commitment, the Group will charge security deposit to reduce the credit risk in general.

The Group classifies loans and advances to customers into five categories, namely pass, special-mention, substandard, doubtful and loss. The last three categories are deemed as non-performing loans (NPLs). Loan impairment is mainly determined by the possibility of repayment and recovery of principal and interest. Major assessment factors include repayment ability, credit record, repayment willingness, profitability of loan project, guarantee or mortgage measures and legal liability for loan repayment of the borrower. The Group sets aside allowance for loan impairment by collective assessment or individual assessment.

The Group assesses the impairment of the loans and advances to customers at the end of the reporting period according to the accounting policies specified in Note IV. In addition, at the end of the reporting period, the Group will analyze the contract amount of loans and advances to customers and report it to the Management for assessing credit risk.

According to the guidelines of the CBRC on loan risk classification, the definitions of the Group's five-tier classifications of loans and advances to customers are listed as below:

- Pass: The borrower is able to perform the loan clauses and there is no reason for doubting the timely and full-amount repayment of loan principal and interest.
- Special-mention: Though the borrower is capable of repaying the loans at present, there are factors that are likely to adversely influence the repayment.
- Substandard: The repayment ability of the borrower is obviously doubtful and its normal operating income can't be fully relied on to repay the principal and interest. Even if guarantee or mortgage measures are taken, there still might be certain loss.
- Doubtful: The borrower can't repay the principal and interest in full amount. Even if guarantee or mortgage measures are taken, there must be material loss.
- Loss: The principal or interest can't be recovered or only a small portion can be recovered after the Group takes all possible measures and resorts to all necessary legal proceedings.

The accounting standards used by the Group to assess the impairment loss of financial assets are specified in Note IV-8(2) Impairment of Financial Assets.

3.2 Maximum credit risk exposure

Without regard to the available collaterals or other credit enhancement measures, the amounts of the maximum credit exposure on the balance sheet date are presented as follows:

	The Group	
	31 December 2016	31 December 2015
Balances with central banks	218,963	260,964
Due from and placements with banks and other financial institutions	149,648	80,466
Financial assets measured at fair value through profit or loss	4,939	11,872
Derivative financial assets	803	191
Financial assets held under resale agreements	122,032	245,297
Loans and advances to customers	1,184,355	1,041,937
Available-for-sale financial assets	92,170	73,118
Held-to-maturity investments	345,593	194,543
Account receivable held for investment	197,378	77,460
Other financial assets	17,140	13,552
On-balance-sheet credit risk exposure	2,333,021	1,999,400
Off-balance-sheet credit risk exposure	475,998	453,073
Maximum credit risk exposure	2,809,019	2,452,473

	The Bank	
	31 December 2016	31 December 2015
Balances with central banks	218,256	260,713
Due from and placements with banks and other financial institutions	149,531	79,966
Financial assets measured at fair value through profit or loss	4,939	11,872
Derivative financial assets	803	191
Financial assets held under resale agreements	122,032	245,297
Loans and advances to customers	1,139,301	1,004,855
Available-for-sale financial assets	92,170	73,118
Held-to-maturity investments	345,593	194,543
Account receivable held for investment	196,478	77,460
Other financial assets	16,859	13,319
On-balance-sheet credit risk exposure	2,285,962	1,961,334
Off-balance-sheet credit risk exposure	473,425	451,709
Maximum credit risk exposure	2,759,387	2,413,043

The Group will adopt a series of policies and credit enhancement measures to reduce the credit risk exposure to an acceptable level. Common methods include asking the borrower to pay security deposit or providing collaterals or warranty. The amount and type of collaterals required by the Group depend on the assessment of the credit risk of the counterparty. As for the type and assessment parameters of collaterals, the Group has formulated relevant guideline and it takes the acceptable type and its value as the specific implementation standard.

The types of collaterals accepted by the Group are as follows:

- (1) Reverse repurchase transactions: bills, bonds, etc;
- (2) Corporate loans: house property, machinery equipments, land use rights, certificate of deposits and equity, etc; and
- (3) Personal loans: house property and certificate of deposits, etc.

The Management regularly inspects the value of collaterals and requires the counterparty to increase the collaterals if necessary.

3.3 Derivative financial instruments

The credit risk of derivative financial instruments of the Group lies in whether the counterparty is able to make payments timely in line with the contract. As for the evaluation and control standard for credit risk of derivative financial instruments, the Group applied the same risk control standard with the other transactions.

3.4 Off-balance-sheet business risk

The Group includes the off-balance-sheet business into unified credit management. As for the off-balance-sheet businesses such as bank acceptance bills, L/C and L/G, the Bank requires authentic trading background, charges security deposit in corresponding proportion based on the credit status of customers and business risk level, and requires effective guarantee for the remaining parts. The Group strictly controls financing L/G and other high-risk off-balance-sheet businesses.

3.5 Credit quality of various assets with credit risk

31 December 2016 (the Group)					
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	218,963	–	–	–	218,963
Due from and placements with banks and other financial institutions	149,700	–	121	(173)	149,648
Financial assets designated at fair value through profit or loss	4,938	1	–	–	4,939
Derivative financial assets	803	–	–	–	803
Financial assets held under resale agreements	121,726	306	–	–	122,032
Loans and advances to customers	1,159,038	37,268	20,348	(32,299)	1,184,355
Available-for-sale financial assets	92,172	–	–	(2)	92,170
Held-to-maturity investments	345,593	–	–	–	345,593
Account receivable held for investment	196,757	–	1,650	(1,029)	197,378
Other financial assets	17,042	–	852	(754)	17,140
Total	2,306,732	37,575	22,971	(34,257)	2,333,021

31 December 2015 (the Group)					
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	260,964	–	–	–	260,964
Due from and placements with banks and other financial institutions	80,536	–	119	(189)	80,466
Financial assets designated at fair value through profit or loss	11,871	1	–	–	11,872
Derivative financial assets	191	–	–	–	191
Financial assets held under resale agreements	245,297	–	–	–	245,297
Loans and advances to customers	1,026,759	26,116	16,297	(27,235)	1,041,937
Available-for-sale financial assets	73,063	–	255	(200)	73,118
Held-to-maturity investments	194,543	–	–	–	194,543
Account receivable held for investment	78,054	289	–	(883)	77,460
Other financial assets	13,490	–	519	(457)	13,552
Total	1,984,768	26,406	17,190	(28,964)	1,999,400

31 December 2015 (the Bank)					
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	218,256	–	–	–	218,256
Due from and placements with banks and other financial institutions	149,583	–	121	(173)	149,531
Financial assets designated at fair value through profit or loss	4,938	1	–	–	4,939
Derivative financial assets	803	–	–	–	803
Financial assets held under resale agreements	121,726	306	–	–	122,032
Loans and advances to customers	1,112,958	37,210	20,229	(31,096)	1,139,301
Available-for-sale financial assets	92,172	–	–	(2)	92,170
Held-to-maturity investments	345,593	–	–	–	345,593
Account receivable held for investment	195,857	–	1,650	(1,029)	196,478
Other financial assets	16,755	–	851	(747)	16,859
Total	2,258,641	37,517	22,851	(33,047)	2,285,962

31 December 2015 (the Bank)					
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	260,713	–	–	–	260,713
Due from and placements with banks and other financial institutions	80,036	–	119	(189)	79,966
Financial assets designated at fair value through profit or loss	11,871	1	–	–	11,872
Derivative financial assets	191	–	–	–	191
Financial assets held under resale agreements	245,297	–	–	–	245,297
Loans and advances to customers	989,056	26,082	16,292	(26,575)	1,004,855
Available-for-sale financial assets	73,063	–	255	(200)	73,118
Held-to-maturity investments	194,543	–	–	–	194,543
Account receivable held for investment	78,054	289	–	(883)	77,460
Other financial assets	13,257	–	519	(457)	13,319
Total	1,946,081	26,372	17,185	(28,304)	1,961,334

Overdue financial assets refer to the financial assets with principal or interest overdue for 1 day or above.

3.6 Loans and advances to customers

(1) The Loans and advances are distributed by industry as follows:

Industry	The Group			
	31 December 2016		31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	214,201	17.60	213,414	19.96
Wholesale and retail	155,962	12.82	147,267	13.77
Leasing and commercial services	155,004	12.74	110,083	10.30
Real estate	90,119	7.41	78,867	7.38
Construction	83,378	6.85	84,291	7.88
Water conservancy, environment and public facilities management	65,591	5.39	42,344	3.96
Transportation, storage and postal services	49,758	4.09	50,704	4.74
Mining	33,016	2.71	31,930	2.99
Production and supply of electric power, heat, gas and water	32,206	2.65	25,366	2.37
Other corporate industries	64,302	5.29	52,523	4.92
Discounted bills	27,459	2.26	31,478	2.94
Personal loans	245,658	20.19	200,905	18.79
Total loans and advances to customers	1,216,654	100.00	1,069,172	100.00

Industry	The Bank			
	31 December 2016		31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	206,797	17.67	201,973	19.58
Wholesale and retail	155,636	13.30	147,018	14.25
Leasing and commercial services	154,582	13.21	110,059	10.67
Real estate	90,119	7.70	78,867	7.65
Construction	82,813	7.08	83,714	8.12
Water conservancy, environment and public facilities management	52,852	4.52	38,593	3.74
Transportation, storage and postal services	40,548	3.46	40,152	3.89
Mining	29,600	2.53	27,495	2.67
Production and supply of electric power, heat, gas and water	20,849	1.78	19,293	1.87
Other corporate industries	64,028	5.46	52,302	5.07
Discounted bills	27,459	2.35	31,477	3.05
Personal loans	245,114	20.94	200,487	19.44
Total loans and advances to customers	1,170,397	100.00	1,031,430	100.00

(2) The Loans and advances are distributed by region as follows:

Geographical area	The Group			
	31 December 2016		31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	457,647	37.62	391,413	36.61
Eastern China	331,551	27.24	300,165	28.07
Central China and Southern China	262,995	21.62	225,674	21.11
Western China	164,461	13.52	151,920	14.21
Total loans and advances to customers	1,216,654	100.00	1,069,172	100.00

Geographical area	The Bank			
	31 December 2016		31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	443,413	37.88	376,992	36.55
Eastern China	317,543	27.13	290,456	28.16
Central China and Southern China	256,145	21.89	220,203	21.35
Western China	153,296	13.10	143,779	13.94
Total loans and advances to customers	1,170,397	100.00	1,031,430	100.00

(3) The Loans and advances are distributed by collateral as follows:

	The Group		The Bank	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Unsecured loans	196,635	152,988	185,448	146,149
Guaranteed loans	462,333	374,272	430,726	348,645
Collateral loans	557,686	541,912	554,223	536,636
Of which: Mortgage loans	433,433	405,643	432,164	403,626
Pledged loans	124,253	136,269	122,059	133,010
Total loans and advances to customers	1,216,654	1,069,172	1,170,397	1,031,430

(4) Overdue loans

The Group					
31 December 2016					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,362	1,031	457	6	2,856
Guaranteed loans	6,517	10,384	11,603	1,050	29,554
Mortgage loans	3,061	6,489	8,686	559	18,795
Pledged loans	609	1,760	3,313	488	6,170
Total	11,549	19,664	24,059	2,103	57,375

The Group					
31 December 2015					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,281	838	407	5	2,531
Guaranteed loans	3,345	8,922	5,224	367	17,858
Mortgage loans	3,807	7,645	3,387	716	15,555
Pledged loans	1,382	2,630	2,133	259	6,404
Total	9,815	20,035	11,151	1,347	42,348

The Bank					
31 December 2016					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,362	1,031	457	6	2,856
Guaranteed loans	6,507	10,261	11,603	1,050	29,421
Mortgage loans	3,057	6,484	8,678	559	18,778
Pledged loans	609	1,760	3,310	488	6,167
Total	11,535	19,536	24,048	2,103	57,222

The Bank					
31 December 2015					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,281	838	407	5	2,531
Guaranteed loans	3,323	8,922	5,224	367	17,836
Mortgage loans	3,802	7,636	3,387	716	15,541
Pledged loans	1,379	2,630	2,133	259	6,401
Total	9,785	20,026	11,151	1,347	42,309

Note: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

(5) Credit quality of loans and advances to customers

The Group			
	Note	31 December 2016	31 December 2015
Neither overdue nor impaired	(i)	1,159,038	1,026,759
Overdue but not impaired	(ii)	37,268	26,116
Impaired	(iii)	20,348	16,297
Total loans and advances to customers		1,216,654	1,069,172

The Bank			
	Note	31 December 2016	31 December 2015
Neither overdue nor impaired	(i)	1,112,958	989,056
Overdue but not impaired	(ii)	37,210	26,082
Impaired	(iii)	20,229	16,292
Total loans and advances to customers		1,170,397	1,031,430

Note: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

(i) Loans and advances neither overdue nor impaired

The Group			
31 December 2016			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	919,117	(15,228)	903,889
Personal loans and advances	239,921	(3,287)	236,634
Total	1,159,038	(18,515)	1,140,523

The Group			
31 December 2015			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	830,448	(13,116)	817,332
Personal loans and advances	196,311	(2,759)	193,552
Total	1,026,759	(15,875)	1,010,884

The Bank			
31 December 2016			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	873,575	(14,131)	859,444
Personal loans and advances	239,383	(3,273)	236,110
Total	1,112,958	(17,404)	1,095,554

The Bank			
31 December 2015			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	793,160	(13,098)	780,062
Personal loans and advances	195,896	(2,748)	193,148
Total	989,056	(15,846)	973,210

(ii) Loans and advances overdue but not impaired

Analysis on term of overdue but unimpaired loans and advances to customers is as follows:

31 December 2016 (the Group)						
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances	3,984	2,746	2,735	24,870	34,335	30,404
Corporate loans and advances	1,161	422	411	939	2,933	2,164
Total	5,145	3,168	3,146	25,809	37,268	32,568

31 December 2015 (the Group)						
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances	4,033	1,143	2,268	16,236	23,680	23,542
Personal loans and advances	1,111	490	492	343	2,436	1,816
Total	5,144	1,633	2,760	16,579	26,116	25,358

31 December 2016 (the Bank)						
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances	3,984	2,739	2,734	24,826	34,283	30,398
Personal loans and advances	1,161	422	406	938	2,927	2,163
Total	5,145	3,161	3,140	25,764	37,210	32,561

31 December 2015 (the Bank)						
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances	4,011	1,140	2,268	16,228	23,647	23,507
Personal loans and advances	1,111	490	491	343	2,435	1,816
Total	5,122	1,630	2,759	16,571	26,082	25,323

(iii) Impaired loans and advances to customers

	The Group		
	31 December 2016		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	17,545	(8,403)	9,142
Individual assessment	2,803	(2,090)	713
Total	20,348	(10,493)	9,855

	The Group		
	31 December 2015		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	14,141	(7,213)	6,928
Individual assessment	2,156	(1,498)	658
Total	16,297	(8,711)	7,586

Of which:

	The Group	
	31 December 2016	31 December 2015
Impaired loans assessed individually	17,545	14,141
Percentage of impaired loans assessed individually in total loans and advances to customers	1.44%	1.32%
Fair value of collateral	15,892	16,504

The Bank			
31 December 2016			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	17,426	(8,319)	9,107
Collective assessment	2,803	(2,090)	713
Total	20,229	(10,409)	9,820

The Bank			
31 December 2015			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	14,136	(7,212)	6,924
Collective assessment	2,156	(1,498)	658
Total	16,292	(8,710)	7,582

Of which:

The Bank		
	31 December 2016	31 December 2015
Impaired loans assessed individually	17,426	14,136
Percentage of impaired loans assessed individually in total loans and advances to customers	1.49 %	1.37%
Fair value of collateral	15,853	16,504

3.7 Credit quality of debt instruments

The Group			
	Note	31 December 2016	31 December 2015
Neither overdue nor impaired	(i)	639,460	357,531
Overdue but not impaired	(ii)	1	290
Impaired	(iii)	1,650	255
Total amount of debt instruments		641,111	358,076
Less: Allowance for impairment losses of debt instruments		(1,031)	(1,083)
Individual assessment		(160)	(200)
Collective assessment		(871)	(883)
Book value of debt instruments		640,080	356,993

The Bank			
	Note	31 December 2016	31 December 2015
Neither overdue nor impaired	(i)	638,560	357,531
Overdue but not impaired	(ii)	1	290
Impaired	(iii)	1,650	255
Total amount of debt instruments		640,211	358,076
Less: Allowance for impairment losses of debt instruments		(1,031)	(1,083)
Individual assessment		(160)	(200)
Collective assessment		(871)	(883)
Book value of debt instruments		639,180	356,993

(1) Neither overdue nor impaired debt instruments

The Group					
31 December 2016					
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Government bonds	–	13,887	202,700	157	216,744
Bonds of public entities and quasi-governments	831	38,910	33,448	–	73,189
Bonds of financial institutions	–	8,168	41,130	1,500	50,798
Corporate bonds	4,107	16,659	1,000	–	21,766
Certificates of deposit with banks and other financial institutions	–	14,548	67,315	–	81,863
Wealth management products	–	–	–	76,205	76,205
Beneficiary rights of assets	–	–	–	37,635	37,635
Asset management plan of financial institutions	–	–	–	81,260	81,260
Total	4,938	92,172	345,593	196,757	639,460

The Group					
31 December 2015					
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Government bonds	–	9,911	138,308	226	148,445
Bonds of public entities and quasi-governments	1,971	40,259	26,443	–	68,673
Bonds of financial institutions	–	–	20,455	2,650	23,105
Corporate bonds	9,900	22,893	3,967	–	36,760
Certificates of deposit with banks and other financial institutions	–	–	5,370	–	5,370
Beneficiary rights of assets	–	–	–	74,180	74,180
Asset management plan of financial institutions	–	–	–	998	998
Total	11,871	73,063	194,543	78,054	357,531

The Bank					
31 December 2016					
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Government bonds	–	13,887	202,700	157	216,744
Bonds of public entities and quasi-governments	831	38,910	33,448	–	73,189
Bonds of financial institutions	–	8,168	41,130	1,500	50,798
Corporate bonds	4,107	16,659	1,000	–	21,766
Certificates of deposit with banks and other financial institutions	–	14,548	67,315	–	81,863
Wealth management products	–	–	–	76,205	76,205
Beneficiary rights of assets	–	–	–	36,735	36,735
Asset management plan of financial institutions	–	–	–	81,260	81,260
Total	4,938	92,172	345,593	195,857	638,560

The Bank					
31 December 2015					
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Government bonds	–	9,911	138,308	226	148,445
Bonds of public entities and quasi-governments	1,971	40,259	26,443	–	68,673
Bonds of financial institutions	–	–	20,455	2,650	23,105
Corporate bonds	9,900	22,893	3,967	–	36,760
Certificates of deposit with banks and other financial institutions	–	–	5,370	–	5,370
Beneficiary rights of assets	–	–	–	74,180	74,180
Asset management plan of financial institutions	–	–	–	998	998
Total	11,871	73,063	194,543	78,054	357,531

(2) Debt instruments overdue but not impaired

The Group and the Bank					
31 December 2016					
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Bonds of financial institutions	1	-	-	-	1
Total	1	-	-	-	1

The Group and the Bank					
31 December 2015					
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Bonds of financial institutions	1	-	-	-	1
Beneficiary rights of assets	-	-	-	289	289
Total	1	-	-	289	290

(3) Impaired debt instruments

The Group and the Bank					
31 December 2016					
Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Beneficiary rights of assets	-	-	-	652	652
Asset management plan of financial institutions	-	-	-	998	998
Less: Allowance for impairment losses	-	-	-	(160)	(160)
Total	-	-	-	1,490	1,490

The Group and the Bank

31 December 2015

Type of debt instruments	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Corporate bonds	-	255	-	-	255
Less: Allowance for impairment losses	-	(200)	-	-	(200)
Total	-	55	-	-	55

(4) The debt instruments are classified based on credit ratings of credit rating agencies widely accepted in the market

The Group

31 December 2016

	No rating	AAA	AA	A	Lower than A	Total
Government bonds	173,555	43,189	-	-	-	216,744
Bonds of public entities and quasi-governments	70,296	2,893	-	-	-	73,189
Bonds of financial institutions	1,923	46,757	2,119	-	-	50,799
Corporate bonds	12,260	7,490	1,965	30	21	21,766
Certificates of deposit with banks and other financial institutions	81,863	-	-	-	-	81,863
Wealth management products	76,205	-	-	-	-	76,205
Beneficiary rights of assets	38,287	-	-	-	-	38,287
Asset management plan of financial institutions	82,258	-	-	-	-	82,258
Total	536,647	100,329	4,084	30	21	641,111

The Group					
31 December 2015					
	No rating	AAA	AA	A	Total
Government bonds	122,233	26,212	–	–	148,445
Bonds of public entities and quasi-governments	65,481	3,192	–	–	68,673
Bonds of financial institutions	2,728	18,650	1,728	–	23,106
Corporate bonds	21,221	10,699	4,906	189	37,015
Certificates of deposit with banks and other financial institutions	5,370	–	–	–	5,370
Wealth management products	–	–	–	–	–
Beneficiary rights of assets	74,469	–	–	–	–
Asset management plan of financial institutions	998	–	–	–	998
Total	292,500	58,753	6,634	189	358,076

The Bank						
31 December 2016						
	No rating	AAA	AA	A	Lower than A	Total
Government bonds	173,555	43,189	–	–	–	216,744
Bonds of public entities and quasi-governments	70,296	2,893	–	–	–	73,189
Bonds of financial institutions	1,923	46,757	2,119	–	–	50,799
Corporate bonds	12,260	7,490	1,965	30	21	21,766
Certificates of deposit with banks and other financial institutions	81,863	–	–	–	–	81,863
Wealth management products	76,205	–	–	–	–	76,205
Beneficiary rights of assets	37,387	–	–	–	–	37,387
Asset management plan of financial institutions	82,258	–	–	–	–	82,258
Total	535,747	100,329	4,084	30	21	640,211

The Bank					
31 December 2015					
	No rating	AAA	AA	A	Total
Government bonds	122,233	26,212	–	–	148,445
Bonds of public entities and quasi-governments	65,481	3,192	–	–	68,673
Bonds of financial institutions	2,728	18,650	1,728	–	23,106
Corporate bonds	21,221	10,699	4,906	189	37,015
Certificates of deposit with banks and other financial institutions	5,370	–	–	–	5,370
Wealth management products	–	–	–	–	–
Beneficiary rights of assets	74,469	–	–	–	–
Asset management plan of financial institutions	998	–	–	–	998
Total	292,500	58,753	6,634	189	358,076

3.8 Renegotiated financial assets

The carrying amount of the financial assets which were identified as overdue or impaired and have been subject to concession arrangement with borrowers or changed guarantee conditions is as follows:

	31 December 2016	31 December 2015
Loans and advances to customers	189	181

4. Liquidity risk

Liquidity risk is the risk that funds will not be available to make repayments when liabilities fall due. Liquidity risk may be resulted from mismatch of cash flows or terms between assets and liabilities.

The Bank has established the Asset & Liabilities Management Committee which is responsible for formulation, organization and implementation of the administrative policies on liquidity risk, established multi-channel financing mechanism, and designed a series of daily liquidity monitoring indicator systems complying with the actuality of the Bank based on the applicability principle, in accordance with the indicator system on liquidity risk monitoring of regulatory authorities. Meanwhile, taking into account both the economic efficiency and liquidity, the Bank held some government bonds and central bank bills in the assets portfolio, which could not only achieve stable investment income, but also be sold off or repurchased in the secondary market at any time to fulfill the liquidity requirements.

4.1 Liquidity analysis

(1) Maturity analysis

The table below analyzes the carrying amount of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of contract:

	The Group							Total
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	
Financial assets								
Cash on hand and balances with central banks	193,636	26,529	–	–	2,008	–	–	222,173
Due from banks and other financial institutions	–	12,467	54,980	45,456	20,877	–	–	133,780
Placements with banks and other financial institutions	–	–	15,575	245	48	–	–	15,868
Financial assets designated at fair value through profit or loss	1	–	215	492	965	2,326	940	4,939
Derivative financial assets	–	–	120	100	502	81	–	803
Financial assets held under resale agreements	306	–	121,668	–	58	–	–	122,032
Loans and advances to customers	43,665	–	94,994	93,856	368,266	400,366	183,208	1,184,355
Available-for-sale financial assets	82	–	2,774	7,640	24,787	44,994	11,975	92,252
Held-to-maturity investments	–	–	9,873	14,518	68,369	139,917	112,916	345,593
Account receivable held for investment	1,490	–	21,116	54,462	38,070	58,158	24,082	197,378
Other financial assets	2,280	3,303	4,975	2,702	3,534	299	47	17,140
Total financial assets	241,460	42,299	326,290	219,471	527,484	646,141	333,168	2,336,313
Financial liabilities								
Due to central banks	–	–	20,000	18,000	70,005	–	–	108,005
Due to banks and other financial institutions	–	21,962	185,571	34,569	52,330	3,831	–	298,263
Derivative financial assets	–	–	140	180	623	150	–	1,093
Repurchase agreements	–	–	103,786	2,735	175	–	–	106,696
Deposits taken	–	802,577	73,774	119,927	259,619	112,403	–	1,368,300
Debt obligations payable	–	–	25,559	46,774	138,651	57,200	–	268,184
Other financial liabilities	–	19,149	2,981	4,667	3,517	8,024	772	39,110
Total financial liabilities	–	843,688	411,811	226,852	524,920	181,608	772	2,189,651
Net position	241,460	(801,389)	(85,521)	(7,381)	2,564	464,533	332,396	146,662

The Group								
31 December 2015								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Financial assets								
Cash on hand and balances with central banks	198,538	65,444	–	–	112	–	–	264,094
Due from banks and other financial institutions	–	13,741	3,645	841	30,039	1,228	–	49,494
Placements with banks and other financial institutions	–	–	29,872	1,100	–	–	–	30,972
Financial assets designated at fair value through profit or loss	1	–	91	943	5,134	5,580	123	11,872
Derivative financial assets	–	–	65	51	74	1	–	191
Financial assets held under resale agreements	–	–	205,488	28,152	11,657	–	–	245,297
Loans and advances to customers	30,287	–	93,231	84,309	375,447	297,025	161,638	1,041,937
Available-for-sale financial assets	82	–	1,840	4,475	13,020	43,428	10,355	73,200
Held-to-maturity investments	–	–	983	3,945	12,572	74,460	102,583	194,543
Account receivable held for investment	289	–	2,659	1,239	24,497	43,752	5,024	77,460
Other financial assets	1,140	2,901	3,946	1,931	3,436	197	1	13,552
Total financial assets	230,337	82,086	341,820	126,986	475,988	465,671	279,724	2,002,612
Financial liabilities								
Due to central banks	–	–	20,000	–	10,027	–	–	30,027
Due to banks and institutions	–	52,281	170,416	57,701	44,878	9,065	–	334,341
Derivative financial assets	–	–	26	55	88	–	–	169
Repurchase agreements	–	–	76,167	4,245	79	–	–	80,491
Deposits taken	–	831,228	54,359	113,569	265,054	87,453	–	1,351,663
Debt obligations payable	–	–	8,791	19,993	23,109	15,000	–	66,893
Other financial liabilities	–	6,089	1,201	794	8,233	9,961	446	26,724
Total financial liabilities	–	889,598	330,960	196,357	351,468	121,479	446	1,890,308
Net position	230,337	(807,512)	10,860	(69,371)	124,520	344,192	279,278	112,304

The Bank								
31 December 2016								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Financial assets								
Cash on hand and balances with central banks	193,462	25,986	–	–	2,008	–	–	221,456
Due from banks and other financial institutions	–	12,426	54,940	45,420	20,877	–	–	133,663
Placements with banks and other financial institutions	–	–	15,575	245	48	–	–	15,868
Financial assets designated at fair value through profit or loss	1	–	215	492	965	2,326	940	4,939
Derivative financial assets	–	–	120	100	502	81	–	803
Financial assets held under resale agreements	306	–	121,668	–	58	–	–	122,032
Loans and advances to customers	43,603	–	93,747	91,387	358,621	373,442	178,501	1,139,301
Available-for-sale financial assets	82	–	2,774	7,640	24,787	44,994	11,975	92,252
Held-to-maturity investments	–	–	9,873	14,518	68,370	139,916	112,916	345,593
Account receivable held for investment	1,490	–	21,116	54,462	38,070	58,158	23,182	196,478
Other financial assets	2,280	3,034	4,963	2,702	3,534	299	47	16,859
Total financial assets	241,224	41,446	324,991	216,966	517,840	619,216	327,561	2,289,244
Financial liabilities								
Due to central banks	–	–	20,000	18,000	70,000	–	–	108,000
Due to banks and other financial institutions	–	22,187	185,240	28,804	26,677	680	–	263,588
Derivative financial liabilities	–	–	140	180	623	150	–	1,093
Repurchase agreements	–	–	103,786	2,735	175	–	–	106,696
Deposits taken	–	801,026	73,720	119,783	259,213	112,266	–	1,366,008
Debt obligations payable	–	–	25,559	46,774	138,651	57,200	–	268,184
Other financial liabilities	–	19,131	2,642	4,361	2,247	4,709	89	33,179
Total financial liabilities	–	842,344	411,087	220,637	497,586	175,005	89	2,146,748
Net position	241,224	(800,898)	(86,096)	(3,671)	20,254	444,211	327,472	142,496

The Bank								
31 December 2015								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Financial assets								
Cash on hand and balances with central banks	198,401	65,319	–	–	112	–	–	263,832
Due from banks and other financial institutions	–	13,436	3,450	841	30,039	1,228	–	48,994
Placements with banks and other financial institutions	–	–	29,872	1,100	–	–	–	30,972
Financial assets designated at fair value through profit or loss	1	–	91	943	5,134	5,580	123	11,872
Derivative financial assets	–	–	65	51	74	1	–	191
Financial assets held under resale agreements	–	–	205,488	28,152	11,657	–	–	245,297
Loans and advances to customers	30,251	–	92,299	81,951	365,588	275,096	159,670	1,004,855
Available-for-sale financial assets	82	–	1,840	4,475	13,020	43,428	10,355	73,200
Held-to-maturity investments	–	–	983	3,945	12,571	74,461	102,583	194,543
Account receivable held for investment	289	–	2,659	1,239	24,497	43,752	5,024	77,460
Other financial assets	1,140	2,680	3,934	1,931	3,436	197	1	13,319
Total financial assets	230,164	81,435	340,681	124,628	466,128	443,743	277,756	1,964,535
Financial liabilities								
Due to central banks	–	–	20,000	–	10,000	–	–	30,000
Due to banks and institutions	–	55,588	164,316	56,701	24,432	6,117	–	307,154
Derivative financial assets	–	–	26	55	88	–	–	169
Repurchase agreements	–	–	76,167	4,245	79	–	–	80,491
Deposits taken	–	830,299	54,292	113,405	264,648	87,356	–	1,350,000
Debt obligations payable	–	–	8,791	19,993	23,109	15,000	–	66,893
Other financial liabilities	–	6,077	1,074	498	7,092	6,259	164	21,164
Total financial liabilities	–	891,964	324,666	194,897	329,448	114,732	164	1,855,871
Net position	230,164	(810,529)	16,015	(70,269)	136,680	329,011	277,592	108,664

(2) Undiscounted contract cash flows classified by expiry date of contract

The table below presents the undiscounted cash flows of non-derivative financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of the contract:

	The Group							
	31 December 2016							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Financial assets								
Cash on hand and balances with central banks	193,636	26,529	-	-	2,008	-	-	222,173
Due from banks and other financial institutions	-	12,509	55,367	46,058	21,410	-	-	135,344
Placements with banks and other financial institutions	-	-	15,592	247	50	-	-	15,889
Financial assets designated at fair value through profit or loss	1	-	220	523	1,150	2,683	1,060	5,637
Financial assets held under resale agreements	307	-	123,564	-	60	-	-	123,931
Loans and advances to customers	45,209	-	98,642	99,753	389,796	443,797	233,897	1,311,094
Available-for-sale financial assets	82	-	3,184	8,183	26,620	50,497	13,803	102,369
Held-to-maturity investments	-	-	10,462	16,167	75,407	168,970	165,776	436,782
Account receivable held for investment	1,508	-	21,358	55,168	40,035	67,073	35,460	220,602
Other financial assets	62	3,260	4,963	2,702	3,534	10	47	3,332
Total financial assets	240,805	42,298	328,389	226,099	556,536	733,030	449,996	2,577,153
Financial liabilities								
Due to central banks	-	-	20,478	18,308	71,366	-	-	110,152
Due to banks and other financial institutions	-	21,973	186,875	35,318	53,637	4,311	-	302,114
Repurchase agreements	-	-	104,750	2,800	176	-	-	107,726
Deposits taken	-	802,911	76,831	125,645	267,460	126,514	-	1,399,361
Debt obligations payable	-	-	25,639	48,656	146,025	62,863	-	283,183
Other financial liabilities	-	18,804	292	190	1,137	3,260	772	24,455
Total financial liabilities	-	843,688	414,865	230,917	539,801	196,948	772	2,226,991
Net position	240,805	(801,390)	(86,476)	(4,818)	16,735	536,082	449,224	350,162

The Group								
31 December 2015								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Financial assets								
Cash on hand and balances with central banks	198,539	65,443	–	–	112	–	–	264,094
Due from banks and other financial institutions	–	13,741	3,669	866	31,022	1,475	–	50,773
Placements with banks and other financial institutions	–	–	29,908	1,122	–	–	–	31,030
Financial assets designated at fair value through profit or loss	1	–	97	995	5,519	6,203	149	12,964
Financial assets held under resale agreements	–	–	206,012	28,533	11,828	–	–	246,373
Loans and advances to customers	41,699	–	99,673	93,757	408,193	360,509	221,482	1,225,313
Available-for-sale financial assets	82	–	2,199	5,130	15,000	49,129	11,631	83,171
Held-to-maturity investments	–	–	1,496	5,144	18,166	97,420	155,270	277,496
Account receivable held for investment	289	–	3,117	1,927	27,966	49,105	5,784	88,188
Other financial assets	38	2,901	3,946	1,931	3,436	10	1	2,949
Total financial assets	240,648	82,085	346,171	137,474	517,806	563,851	394,316	2,282,351
Financial liabilities								
Due to central banks	–	–	20,339	–	10,094	–	–	30,433
Due to banks and institutions	–	52,304	171,687	58,419	46,419	10,591	–	339,420
Repurchase agreements	–	–	76,255	4,277	80	–	–	80,612
Deposits taken	–	831,645	56,518	116,896	277,988	104,386	–	1,387,433
Debt obligations payable	–	–	8,801	20,135	24,397	17,088	–	70,421
Other financial liabilities	–	5,642	32	283	1,017	3,741	328	11,043
Total financial liabilities	–	889,591	333,632	200,010	359,995	135,806	328	1,919,362
Net position	240,648	(807,506)	12,539	(62,536)	157,811	428,045	393,988	362,989

The Bank								
31 December 2016								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Financial assets								
Cash on hand and balances with central banks	193,462	25,986	–	–	2,008	–	–	221,456
Due from banks and other financial institutions	–	12,467	55,327	46,022	21,410	–	–	135,226
Placements with banks and other financial institutions	–	–	15,592	247	50	–	–	15,889
Financial assets designated at fair value through profit or loss	1	–	220	523	1,150	2,683	1,060	5,637
Financial assets held under resale agreements	307	–	123,564	–	60	–	–	123,931
Loans and advances to customers	45,185	–	98,573	99,551	388,904	443,556	233,879	1,309,648
Available-for-sale financial assets	82	–	3,184	8,183	26,620	50,497	13,803	102,369
Held-to-maturity investments	–	–	10,462	16,167	75,407	168,970	165,776	436,782
Account receivable held for investment	1,508	–	21,358	55,168	39,981	66,857	34,020	218,892
Other financial assets	62	2,991	–	–	–	10	–	3,063
Total financial assets	240,607	41,444	328,280	225,861	555,590	732,573	448,538	2,572,893
Financial liabilities								
Due to central banks	–	–	20,478	18,308	71,366	–	–	110,152
Due to banks and other financial institutions	–	22,197	186,437	29,315	27,265	743	–	265,957
Repurchase agreements	–	–	104,750	2,800	176	–	–	107,726
Deposits taken	–	801,360	76,777	125,499	267,042	126,360	–	1,397,038
Debt obligations payable	–	–	25,639	48,656	146,025	62,863	–	283,183
Other financial liabilities	–	18,786	–	–	4	6	89	18,885
Total financial liabilities	–	842,343	414,081	224,578	511,878	189,972	89	2,182,941
Net position	240,607	(800,899)	(85,801)	1,283	43,712	542,601	448,449	389,952

The Bank								
31 December 2015								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Financial assets								
Cash on hand and balances with central banks	198,401	65,319	–	–	112	–	–	263,832
Due from banks and other financial institutions	–	13,436	3,474	866	31,022	1,475	–	50,273
Placements with banks and other financial institutions	–	–	29,908	1,122	–	–	–	31,030
Financial assets designated at fair value through profit or loss	1	–	97	995	5,519	6,203	149	12,964
Financial assets held under resale agreements	–	–	206,012	28,533	11,828	–	–	246,373
Loans and advances to customers	41,660	–	98,563	90,993	397,143	336,248	219,328	1,183,935
Available-for-sale financial assets	82	–	2,199	5,130	15,000	49,129	11,631	83,171
Held-to-maturity investments	–	–	1,496	5,144	18,166	97,420	155,270	277,496
Account receivable held for investment	289	–	3,117	1,927	27,966	49,105	5,784	88,188
Other financial assets	38	2,680	–	–	–	10	–	2,728
Total financial assets	240,471	81,435	344,866	134,710	506,756	539,590	392,162	2,239,990
Financial liabilities								
Due to central banks	–	–	20,339	–	10,067	–	–	30,406
Due to banks and institutions	–	55,612	165,375	57,309	25,422	7,315	–	311,033
Repurchase agreements	–	–	76,255	4,277	80	–	–	80,612
Deposits taken	–	830,711	56,450	116,730	277,576	104,283	–	1,385,750
Debt obligations payable	–	–	8,801	20,135	24,397	17,088	–	70,421
Other financial liabilities	–	5,632	2	2	8	41	46	5,731
Total financial liabilities	–	891,955	327,222	198,453	337,550	128,727	46	1,883,953
Net position	240,471	(810,520)	17,644	(63,743)	169,206	410,863	392,116	356,037

Assets that can be used for repaying all liabilities and fulfilling outstanding loan commitment include cash on hand and balance with central banks, due from and placements with banks and other financial institutions and financial assets measured at fair value through profit or loss, etc. In normal operation, most due deposits are still retained within the Group instead of withdrawn immediately on the maturity date. Besides, available-for-sale financial assets can be disposed of when necessary to repay matured debts.

4.2 Off-balance-sheet items

Off-balance-sheet items of the Group mainly include bank acceptance bills, letter of credit issued, letter of guarantee issued, irrevocable loan commitments and unused credit card limit. Amounts of off-balance-sheet items are presented in the table below by residual maturity of contract:

The Group				
31 December 2016				
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptances	273,235	–	–	273,235
Letters of credit issued	72,733	775	–	73,508
Letters of guarantee issued	12,637	7,963	23	20,623
Irrevocable loan commitment	5,269	–	–	5,269
Unused credit card limit	103,363	–	–	103,363
Total	467,237	8,738	23	475,998

The Group				
31 December 2015				
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptances	315,187	–	–	315,187
Letters of credit issued	68,887	1,104	–	69,991
Letters of guarantee issued	8,560	7,494	37	16,091
Irrevocable loan commitments	16,998	2,010	–	19,008
Unused credit card limit	32,796	–	–	32,796
Total	442,428	10,608	37	453,073

The Bank				
31 December 2016				
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptances	273,424	–	–	273,424
Letters of credit issued	72,733	775	–	73,508
Letters of guarantee issued	12,637	7,963	23	20,623
Irrevocable loan commitment	2,507	–	–	2,507
Unused credit card limit	103,363	–	–	103,363
Total	464,664	8,738	23	473,425

The Bank				
31 December 2015				
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptances	315,109	–	–	315,109
Letters of credit issued	68,887	1,104	–	69,991
Letters of guarantee issued	8,560	7,494	37	16,091
Irrevocable loan commitments	15,712	2,010	–	17,722
Unused credit card limit	32,796	–	–	32,796
Total	441,064	10,608	37	451,709

5. Market risk

Market risk means the possibility of loss to the Group's on- and off-balance-sheet businesses that results from changes in the market prices (including exchange rate, interest rate, commodity price and stock price). Market risk of the Group mainly consists of exchange rate risk and interest rate risk. Exchange rate risk of the Group mainly refers to risk of loss caused by exchange rate fluctuation in exposure of assets and liabilities denominated in foreign currency. Interest rate risk mainly refers to risk of loss caused by interest rate fluctuation arising from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

5.1 Exchange rate risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly include the Group's treasury operation exposure and foreign exchange business.

As for the business varieties involving exchange rate risk, the Group strictly manages various links of development, launching and operation, and formulates necessary risk control system in terms of business authorization, exposure limits and process monitoring. The Bank divides its foreign exchange trading businesses between banking book and trading book and the foreign exchange exposure of the whole bank is managed by the Head Office in a unified manner.

At the end of the reporting period, exchange rate risk of financial assets and financial liabilities is as follows:

The Group					
31 December 2016					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	200,336	21,730	60	47	222,173
Due from banks and other financial institutions	122,345	10,172	447	816	133,780
Placements with banks and other financial institutions	15,720	148	-	-	15,868
Financial assets designated at fair value through profit or loss	4,938	1	-	-	4,939
Derivative financial assets	15	775	-	13	803
Financial assets held under resale agreements	122,032	-	-	-	122,032
Loans and advances to customers	1,166,573	17,357	68	357	1,184,355
Available-for-sale financial assets	91,900	352	-	-	92,252
Held-to-maturity investments	345,579	-	-	-	345,593
Account receivable held for investment	197,378	-	-	-	197,378
Other financial assets	16,720	419	-	1	17,140
Total financial assets	2,283,536	50,968	575	1,234	2,336,313
Due to central banks	108,005	-	-	-	108,005
Due to banks and institutions	294,741	3,315	70	137	298,263
Derivative financial liabilities	15	1,032	-	46	1,093
Repurchase agreements	106,696	-	-	-	106,696
Deposits taken	1,341,032	25,599	545	1,124	1,368,300
Debt obligations payable	268,184	-	-	-	268,184
Other financial liabilities	37,626	859	2	623	39,110
Total financial liabilities	2,156,299	30,805	617	1,930	2,189,651
Net exposure	127,237	20,163	(42)	(696)	146,662

The Group					
31 December 2015					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	245,272	18,722	58	42	264,094
Due from banks and other financial institutions	36,695	11,333	283	1,183	49,494
Placements with banks and other financial institutions	30,972	–	–	–	30,972
Financial assets designated at fair value through profit or loss	11,871	1	–	–	11,872
Derivative financial assets	7	169	–	15	191
Financial assets held under resale agreements	245,297	–	–	–	245,297
Loans and advances to customers	1,016,369	25,367	105	96	1,041,937
Available-for-sale financial assets	73,200	–	–	–	73,200
Held-to-maturity investments	194,543	–	–	–	194,543
Account receivable held for investment	77,460	–	–	–	77,460
Other financial assets	13,150	401	1	–	13,552
Total financial assets	1,944,836	55,993	447	1,336	2,002,612
Due to central banks	30,027	–	–	–	30,027
Due to banks and institutions	329,920	4,351	62	8	334,341
Derivative financial liabilities	7	153	–	9	169
Repurchase agreements	80,491	–	–	–	80,491
Deposits taken	1,317,797	32,301	330	1,235	1,351,663
Debt obligations payable	66,893	–	–	–	66,893
Other financial liabilities	25,452	763	3	506	26,724
Total financial liabilities	1,850,587	37,568	395	1,758	1,890,308
Net exposure	94,249	18,425	52	(422)	112,304

The Bank					
31 December 2016					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	199,619	21,730	60	47	221,456
Due from banks and other financial institutions	122,228	10,172	447	816	133,663
Placements with banks and other financial institutions	15,720	148	–	–	15,868
Financial assets designated at fair value through profit or loss	4,938	1	–	–	4,939
Derivative financial assets	15	775	–	13	803
Financial assets held under resale agreements	122,032	–	–	–	122,032
Loans and advances to customers	1,121,519	17,357	68	357	1,139,301
Available-for-sale financial assets	91,900	352	–	–	92,252
Held-to-maturity investments	345,579	–	–	–	345,593
Account receivable held for investment	196,478	–	–	–	196,478
Other financial assets	16,439	419	–	1	16,859
Total financial assets	2,236,467	50,968	575	1,234	2,289,244
Due to central banks	108,000	–	–	–	108,000
Due to banks and institutions	260,066	3,315	70	137	263,588
Derivative financial liabilities	15	1,032	–	46	1,093
Repurchase agreements	106,696	–	–	–	106,696
Deposits taken	1,338,740	25,599	545	1,124	1,366,008
Debt obligations payable	268,184	–	–	–	268,184
Other financial liabilities	31,695	859	2	623	33,179
Total financial liabilities	2,113,396	30,805	617	1,930	2,146,748
Net exposure	123,071	20,163	(42)	(696)	142,496

The Bank					
31 December 2015					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	245,010	18,722	58	42	263,832
Due from banks and other financial institutions	36,195	11,333	283	1,183	48,994
Placements with banks and other financial institutions	30,972	–	–	–	30,972
Financial assets designated at fair value through profit or loss	11,871	1	–	–	11,872
Derivative financial assets	7	169	–	15	191
Financial assets held under resale agreements	245,297	–	–	–	245,297
Loans and advances to customers	979,287	25,367	105	96	1,004,855
Available-for-sale financial assets	73,200	–	–	–	73,200
Held-to-maturity investments	194,543	–	–	–	194,543
Account receivable held for investment	77,460	–	–	–	77,460
Other financial assets	12,917	401	1	–	13,319
Total financial assets	1,906,759	55,993	447	1,336	1,964,535
Due to central banks	30,000	–	–	–	30,000
Due to banks and institutions	302,733	4,351	62	8	307,154
Derivative financial liabilities	7	153	–	9	169
Repurchase agreements	80,491	–	–	–	80,491
Deposits taken	1,316,134	32,301	330	1,235	1,350,000
Debt obligations payable	66,893	–	–	–	66,893
Other financial liabilities	19,892	763	3	506	21,164
Total financial liabilities	1,816,150	37,568	395	1,758	1,855,871
Net exposure	90,609	18,425	52	(422)	108,664

The potential impact on pre-tax profit and shareholders' equity is presented below, in the case that the spot and forward exchange rates of RMB against all foreign currencies appreciate or depreciate by 5% at the same time.

The Group and the Bank				
	2016		2015	
	Pre-tax profit	Equity	Pre-tax profit	Equity
Appreciation by 5%	(55)	(55)	49	49
Depreciation by 5%	55	55	(49)	(49)

Impact on pre-tax profit arises from impact of RMB exchange rate fluctuation on net exposure of monetary assets and liabilities and monetary derivative instruments denominated in foreign currency.

The impact on pre-tax profit is determined based on the assumption that the Group's exchange rate sensitive position and net position of monetary derivative instruments remain unchanged on balance sheet dates. The Group actively adjusts foreign currency exposure and applies proper derivative instruments to reduce the foreign exchange risk, based on the Management's judgment on the exchange rate fluctuation trend. Therefore, the sensitivity analysis above may deviate from the actualities to some extent.

5.2 Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group intensified the cost control over interest-bearing liabilities management, established term and interest rate structure matching with the interest-bearing liabilities over the interest-generating assets management, optimized assets and liabilities portfolio management, and proactively developed fee-based business and non-interest rate sensitive financial products, so as to reduce the impact of interest rate risk on the Group's operation.

At the end of reporting periods, the expiry date of contract or repricing date (whichever is earlier) of financial assets and financial liabilities is as follows:

The Group							
31 December 2016							
	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non- interest generating	Total
Cash on hand and balances with central banks	215,168	–	–	–	–	7,005	222,173
Due from banks and other financial institutions	67,447	45,456	20,877	–	–	–	133,780
Placements with banks and other financial institutions	15,575	245	48	–	–	–	15,868
Financial assets designated at fair value through profit or loss	215	492	965	2,326	940	1	4,939
Derivative financial assets	–	–	–	–	–	803	803
Financial assets held under resale agreements	121,668	–	58	–	–	306	122,032
Loans and advances to customers	363,758	179,938	337,049	188,706	23,193	91,711	1,184,355
Available-for-sale financial assets	6,115	11,709	25,276	38,177	10,893	82	92,252
Held-to-maturity investments	14,025	21,045	67,818	131,489	111,216	–	345,593
Account receivable held for investment	22,986	59,464	36,856	54,239	22,343	1,490	197,378
Other financial assets	539	–	–	–	–	16,601	17,140
Total financial assets	827,496	318,349	488,947	414,937	168,585	117,999	2,336,313
Due to central banks	20,000	18,000	70,005	–	–	–	108,005
Due to banks and other financial institutions	208,888	37,207	51,488	680	–	–	298,263
Derivative financial assets	–	–	–	–	–	1,093	1,093
Repurchase agreements	103,786	2,735	175	–	–	–	106,696
Deposits taken	854,425	119,913	259,573	112,471	–	21,918	1,368,300
Debt obligations payable	25,559	54,074	138,551	50,000	–	–	268,184
Other financial assets	1,310	–	–	–	–	37,800	39,110
Total financial liabilities	1,213,968	231,929	519,792	163,151	–	60,811	2,189,651
Interest rate risk exposure	(386,472)	86,420	(30,845)	251,786	168,585	57,188	146,662

The Group							
31 December 2015							
	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non- interest generating	Total
Cash on hand and balances with central banks	241,055	–	–	–	–	23,039	264,094
Due from banks and other financial institutions	17,386	841	30,039	1,228	–	–	49,494
Placements with banks and other financial institutions	29,872	1,100	–	–	–	–	30,972
Financial assets designated at fair value through profit or loss	91	1,145	4,942	5,570	123	1	11,872
Derivative financial assets	–	–	–	–	–	191	191
Financial assets held under resale agreements	205,488	28,152	11,657	–	–	–	245,297
Loans and advances to customers	352,741	166,703	350,563	124,231	17,412	30,287	1,041,937
Available-for-sale financial assets	2,811	9,318	12,025	39,317	9,647	82	73,200
Held-to-maturity investments	6,817	5,826	13,285	68,493	100,122	–	194,543
Account receivable held for investment	6,706	10,978	22,589	33,855	3,043	289	77,460
Other financial assets	192	–	–	–	–	13,360	13,552
Total financial assets	863,159	224,063	445,100	272,694	130,347	67,249	2,002,612
Due to central banks	20,000	–	10,027	–	–	–	30,027
Due to banks and other financial institutions	222,697	57,701	44,878	9,065	–	–	334,341
Derivative financial assets	–	–	–	–	–	169	169
Repurchase agreements	76,167	4,245	79	–	–	–	80,491
Deposits taken	865,647	113,737	264,867	87,773	–	19,639	1,351,663
Debt obligations payable	8,791	19,993	24,709	13,400	–	–	66,893
Other financial assets	1,144	–	–	–	–	25,580	26,724
Total financial liabilities	1,194,446	195,676	344,560	110,238	–	45,388	1,890,308
Interest rate risk exposure	(331,287)	28,387	100,540	162,456	130,347	21,861	112,304

The Bank							
31 December 2016							
	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non- interest generating	Total
Cash on hand and balances with central banks	214,462	–	–	–	–	6,994	221,456
Due from banks and other financial institutions	67,366	45,420	20,877	–	–	–	133,663
Placements with banks and other financial institutions	15,575	245	48	–	–	–	15,868
Financial assets designated at fair value through profit or loss	215	492	965	2,326	940	1	4,939
Derivative financial assets	–	–	–	–	–	803	803
Financial assets held under resale agreements	121,668	–	58	–	–	306	122,032
Loans and advances to customers	350,959	157,728	327,970	187,827	23,167	91,650	1,139,301
Available-for-sale financial assets	6,115	11,709	25,276	38,177	10,893	82	92,252
Held-to-maturity investments	14,025	21,045	67,818	131,489	111,216	–	345,593
Account receivable held for investment	22,986	59,464	35,956	54,239	22,343	1,490	196,478
Other financial assets	539	–	–	–	–	16,320	16,859
Total financial assets	813,910	296,103	478,968	414,058	168,559	117,646	2,289,244
Due to central banks	20,000	18,000	70,000	–	–	–	108,000
Due to banks and other financial institutions	207,427	28,804	26,677	680	–	–	263,588
Derivative financial assets	–	–	–	–	–	1,093	1,093
Repurchase agreements	103,786	2,735	175	–	–	–	106,696
Deposits taken	852,828	119,782	259,213	112,267	–	21,918	1,366,008
Debt obligations payable	25,559	54,074	138,551	50,000	–	–	268,184
Other financial assets	1,310	–	–	–	–	31,869	33,179
Total financial liabilities	1,210,910	223,395	494,616	162,947	–	54,880	2,146,748
Interest rate risk exposure	(397,000)	72,708	(15,648)	251,111	168,559	62,766	142,496

The Bank							
31 December 2015							
	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non- interest generating	Total
Cash on hand and balances with central banks	240,803	–	–	–	–	23,029	263,832
Due from banks and other financial institutions	16,886	841	30,039	1,228	–	–	48,994
Placements with banks and other financial institutions	29,872	1,100	–	–	–	–	30,972
Financial assets designated at fair value through profit or loss	91	1,145	4,942	5,570	123	1	11,872
Derivative financial assets	–	–	–	–	–	191	191
Financial assets held under resale agreements	205,488	28,152	11,657	–	–	–	245,297
Loans and advances to customers	350,772	139,019	343,258	124,158	17,397	30,251	1,004,855
Available-for-sale financial assets	2,811	9,318	12,025	39,317	9,647	82	73,200
Held-to-maturity investments	6,817	5,826	13,285	68,493	100,122	–	194,543
Account receivable held for investment	6,706	10,978	22,589	33,855	3,043	289	77,460
Other financial assets	192	–	–	–	–	13,127	13,319
Total financial assets	860,438	196,379	437,795	272,621	130,332	66,970	1,964,535
Due to central banks	20,000	–	10,000	–	–	–	30,000
Due to banks and other financial institutions	219,904	56,701	24,432	6,117	–	–	307,154
Derivative financial assets	–	–	–	–	–	169	169
Repurchase agreements	76,167	4,245	79	–	–	–	80,491
Deposits taken	864,993	113,405	264,648	87,356	–	19,598	1,350,000
Debt obligations payable	8,791	19,993	24,709	13,400	–	–	66,893
Other financial assets	1,144	–	–	–	–	20,020	21,164
Total financial liabilities	1,190,999	194,344	323,868	106,873	–	39,787	1,855,871
Interest rate risk exposure	(330,561)	2,035	113,927	165,748	130,332	27,183	108,664

The table below presents the potential impact on net interest income and shareholders' equity in consideration of structure of the Group's interest-generating assets and interest-bearing liabilities at the end of the reporting period, in the case that the yield curves of all financial instruments go up or down in a parallel manner by 100 basis points.

	The Group			
	2016		2015	
	Net interest income	Equity	Net interest income	Equity
Up 100 basis points	(3,099)	(2,107)	(2,561)	(1,821)
Down 100 basis points	3,099	2,222	2,561	1,907

	The Bank			
	2016		2015	
	Net interest income	Equity	Net interest income	Equity
Up 100 basis points	(3,257)	(2,107)	(2,724)	(1,821)
Down 100 basis points	3,257	2,222	2,724	1,907

The sensitivity analysis on net interest income is conducted based on the reasonably possible changes in interest rates, with the assumption that the structure of financial assets and liabilities held at the end of the period remains unchanged.

Sensitivity analysis on equity is conducted based on the impact of interest rate change on changes in fair value of fixed-rate available-for-sale financial assets held on balance sheet dates after revaluation.

The above assumptions do not reflect the Group's policies on fund use and interest rate risk management. Therefore, the above analysis may deviate from the actualities to some extent.

In addition, the above analysis on impact of interest rate changes is only used as an example to demonstrate the estimated changes in net interest income and equity at various predicted yield levels and amidst the Group's current interest rate risk profile. Yet, it does not take into account the possible risk management measures the Management may take to reduce interest rate risk.

6. Capital management

Since 2013, the Group has managed capital in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the CBRC. In particular, credit risk is measured by the weighting approach, market risk the standard approach and operational risk the basic indicator approach.

Capital composition of the Group is as follows:

Core tier-1 capital: share capital, capital reserve, other comprehensive income, surplus reserve, general risk reserve, retained profit and recognizable part of capital contribution from minority shareholders;

Other tier-1 capital: recognizable part of capital contribution from minority shareholders;

Tier-2 capital: tier-2 capital instruments and premium thereof, excessive allowance for impairment losses on loans and recognizable part of capital contribution from minority shareholders.

Net capital is calculated by deducting corresponding capital deductions from capital at all levels in accordance with the Regulation Governing Capital of Commercial Banks (Provisional).

The Management of the Group monitors the adequacy of capital and application of regulatory capital in a real-time manner based on relevant guideline of the Basel Committee and regulatory requirements of the CBRC.

To ensure the capital adequacy ratio meeting the regulatory requirement and support balanced and sound development of various businesses on this basis, the Group proactively expanded the capital supplementary channel to promote the capital strength, reasonably controlled the growth rate of risk assets, vigorously optimized the structure of risk assets and strived to enhance the utilization efficiency of risk assets.

The Group calculated the net capital at all levels and the capital adequacy ratio in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the CBRC. Particulars are as follows:

	31 December 2016	31 December 2015
Net core tier-1 core capital	132,856	118,248
Net tier-1 core capital	152,900	118,287
Net capital	178,991	144,336
Core tier-1 capital adequacy ratio	8.43%	8.89%
Tier-1 capital adequacy ratio	9.70%	8.89%
Capital adequacy ratio	11.36%	10.85%

7. Fair value of financial assets and financial liabilities

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

7.1 Fair value of financial assets and financial liabilities continuously measured at fair value

The following table shows the financial instruments measured at fair value evaluated at three levels:

The Group and the Bank				
31 December 2016				
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at fair value through profit or loss	–	4,939	–	4,939
Derivative financial assets	–	803	–	803
Available-for-sale financial assets	–	92,170	–	92,170
Financial liabilities				
Derivative financial assets	–	1,093	–	1,093

The Group and the Bank				
31 December 2015				
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at fair value through profit or loss	–	11,872	–	11,872
Derivative financial assets	–	191	–	191
Available-for-sale financial assets	–	73,118	–	73,118
Financial liabilities				
Derivative financial assets	–	169	–	169

Fair value measurement of financial assets and financial liabilities of the Group neither shifted between Level 1 and Level 2 nor between Level 2 and Level 3 in the year and the previous year.

When the quotation is not available in the active market, the Group determines the fair value of financial assets and financial liabilities continuously measured at fair value by valuation techniques.

Valuation techniques used by the Group include cash flow discounting model for some derivative financial instruments whose quotation is not available in the active market (including FX forward, FX swap, interest rate swap, etc.) and the Black-Scholes option pricing model for valuation of option derivative instruments. Parameters used by the cash flow discounting model mainly include recent transaction prices, related yield curve, exchange rate, prepayment rate and credit spread of counterparties while those used by the Black-Scholes option pricing model are related yield curve, exchange rate and fluctuation level, etc.

The fair value of other financial instruments (including interbank market securities) is determined according to the general pricing model which is based on the future cash flow discounting method.

Except the financial assets and financial liabilities continuously measured at fair value, the Group held no financial instruments not continuously measured at fair value.

7.2 Financial assets and financial liabilities not measured at fair value

The table below shows the book value and fair value of financial assets and financial liabilities that are not presented by fair value in the consolidated statement of financial position. Financial assets and financial liabilities with similar book value and fair value are not included in the table below, including balances with central banks, due from and placements with banks and other financial institutions, financial assets under reverse repurchase agreements, borrowings from the central bank, due to banks and other financial institutions, placements from banks and other financial institutions, and financial assets under repurchase agreements, etc.

The Group				
Financial assets	31 December 2016		31 December 2015	
	Book value	Fair value	Book value	Fair value
Loans and advances to customers	1,184,355	1,186,200	1,041,937	1,045,429
Held-to-maturity investments	345,593	349,399	194,543	203,737
Account receivable held for investment	197,378	197,830	77,460	77,471
	1,727,326	1,733,429	1,313,940	1,326,637

Financial liabilities	The Group			
	31 December 2016		31 December 2015	
	Book value	Fair value	Book value	Fair value
Due to customers	1,368,300	1,368,914	1,351,663	1,372,701
Debt obligations payable	268,184	265,029	66,893	67,686
	1,636,484	1,633,943	1,418,556	1,440,387

Financial assets	The Bank			
	31 December 2016		31 December 2015	
	Book value	Fair value	Book value	Fair value
Loans and advances to customers	1,139,301	1,141,146	1,004,855	1,008,348
Held-to-maturity investments	345,593	349,399	194,543	203,737
Account receivable held for investment	196,478	196,930	77,460	77,471
	1,681,372	1,687,475	1,276,858	1,289,556

Financial liabilities	The Bank			
	31 December 2016		31 December 2015	
	Book value	Fair value	Book value	Fair value
Deposits taken	1,366,008	1,366,601	1,350,000	1,371,024
Debt obligations payable	268,184	265,029	66,893	67,686
	1,634,192	1,631,630	1,416,893	1,438,710

The table below lists the levels of fair value of financial assets and financial liabilities that are not presented at fair value on the balance sheet date:

	The Group			
	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers	–	–	1,186,200	1,186,200
Held-to-maturity investments	–	349,399	–	349,399
Account receivable held for investment	–	1,665	196,165	197,830
Financial liabilities				
Deposits taken	–	1,368,914	–	1,368,914
Debt obligations payable	–	265,029	–	265,029

The Group				
31 December 2015				
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers	–	–	1,045,429	1,045,429
Held-to-maturity investments	–	203,737	–	203,737
Account receivable held for investment	–	2,887	74,584	77,471
Financial liabilities				
Deposits taken	–	1,372,701	–	1,372,701
Debt obligations payable	–	67,686	–	67,686

The Bank				
31 December 2016				
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers	–	–	1,141,146	1,141,146
Held-to-maturity investments	–	349,399	–	349,399
Account receivable held for investment	–	1,665	195,265	196,930
Financial liabilities				
Deposits taken	–	1,366,601	–	1,366,601
Debt obligations payable	–	265,029	–	265,029

The Bank				
31 December 2015				
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers	–	–	1,008,348	1,008,348
Held-to-maturity investments	–	203,737	–	203,737
Account receivable held for investment	–	2,887	74,584	77,471
Financial liabilities				
Deposits taken	–	1,371,024	–	1,371,024
Debt obligations payable	–	67,686	–	67,686

As for the beneficiary right of loans and advances to customers and investments classified as receivables, its fair value will be determined based on the cash flow discounting model and the unobservable discounting rate which reflects credit risk of counterparties and is adjusted based on the liquidity profile. These financial instruments are classified into Level 3.

The fair value of other financial instruments is determined according to the general pricing model which is based on the future cash flow discounting method. These financial instruments are classified into Level 2.

XV. Other Significant Matter

1. Assets and liabilities measured at fair value

The Group and the Bank					
2016					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Financial assets designated at fair value through profit or loss	11,872	(182)	-	-	4,939
Derivative financial assets	191	612	-	-	803
Available-for-sale financial assets	73,118	-	22	2	92,170
Total financial assets	85,181	430	22	2	97,912
Derivative financial liabilities	169	(924)	-	-	1,093

The Group and the Bank					
2015					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Financial assets designated at fair value through profit or loss	9,066	112	-	-	11,872
Derivative financial assets	625	(434)	-	-	191
Available-for-sale financial assets	63,366	-	1,292	200	73,118
Total financial assets	73,057	(322)	1,292	200	85,181
Derivative financial liabilities	556	387	-	-	169

Note: There is not necessarily articulation in the changes in the asset and liability items listed in the table above.

2. Foreign-currency financial assets and financial liabilities

The Group and the Bank					
2016					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Cash on hand and balances with central banks	18,822	-	-	-	21,837
Due from banks and other financial institutions	12,799	-	-	-	11,435
Placements with banks and other financial institutions	-	-	-	-	148
Financial assets designated at fair value through profit or loss	1	-	-	-	1
Derivative financial assets	184	604	-	-	788
Loans and advances to customers	25,568	-	-	465	17,782
Available-for-sale financial assets	-	-	-	-	352
Held-to-maturity investments	-	-	-	-	14
Other financial assets	402	-	-	-	420
Total financial assets	57,776	604	-	465	52,777
Financial liabilities	39,721	(916)	-	-	33,352

The Group and the Bank					
2015					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Cash on hand and balances with central banks	20,581	-	-	-	18,822
Due from banks and other financial institutions	9,470	-	-	-	12,799
Financial assets designated at fair value through profit or loss	3	-	-	-	1
Derivative financial assets	623	(439)	-	-	184
Loans and advances to customers	31,426	-	-	149	25,568
Available-for-sale financial assets	1	-	-	-	-
Other financial assets	306	-	-	-	402
Total financial assets	62,410	(439)	-	149	57,776
Financial liabilities	44,267	391	-	-	39,721

Note: There is not necessarily articulation in the changes in the asset and liability items listed in the table above.

XVI. Post balance sheet date events

Profit Distribution Plan

The Bank held a meeting of the Board of Directors on 18 January 2017, approving to distribute cash dividend of RMB4.2 (Pre-tax) per share to preference shareholders. The dividends above totalled RMB840 million, and were distributed on 28 March 2017.

The Bank held a meeting of the Board of Directors on 15 April 2017, approving to distribute dividend of RMB1.81 (pre-tax) per 10 shares after setting aside statutory surplus reserve and general reserve. Calculated based on the shares issued by the Bank as at 31 December 2016, the total dividends distributed totalled about RMB1,934,088,570. Convert the capital reserve into share capital at a ratio of 2 for 10 shares on the basis of 10,685,572,211 shares at 31 December 2016, which increases the registered capital by RMB2,137,114,442. After the conversion, the total share capital records 12,822,686,653, equivalent to RMB12,822,686,653. The above profit distribution plan is subject to approval by the Bank's General Meeting of Shareholders. Before that, accounting treatment is not made to the proposed surplus reserve, general reserve, conversion of capital reserve to share capital and dividend distribution.

XVII. Comparative Data

Certain comparative data have been reclassified to be consistent with this year's presentation of financial statements.

XVIII. Approval of the Financial Statements

The financial statements were approved by the Board of Directors of the Bank on 27 April 2017.

Unaudited supplementary information

1. Detail list of extraordinary profit or loss

The table below is prepared in accordance with the SIC No.1 on Information Disclosure of the Companies with Public Offering – Extraordinary Profit or Loss (2008) issued by the CSRC.

	2016	2015
(Profit)/loss from the disposal of fixed assets	(10)	32
Other net operating income and expenses	134	239
Income tax influence of extraordinary profit or loss	(35)	(76)
Less: Extraordinary profit or loss attributable to minority shareholders	(5)	(4)
Total extraordinary profit or loss attributable to ordinary shareholders of the parent company	84	191

Extraordinary profit or loss refers to the profit or loss resulting from transactions and events that have no direct relation with normal operation of the Group or that although have direct relation with normal operation of the Group, they may affect the financial statements users' normal judgment on the Group's operating results and profitability due to their special and accidental nature.

2. Return on equity and earnings per share

The table below is prepared in accordance with the Rules for the Compilation and Submission of information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (Revision 2010) issued by CSRC. During relevant periods, basic earnings per share will be calculated by dividing the current net profit with the weighted average ordinary shares issued.

	2016	2015
Net profit attributable to ordinary shareholders of the parent company	19,677	18,883
Weighted average return on equity (%)	15.75	17.18
Basic earnings per share (RMB yuan/share)	1.84	1.77
Net profit attributable to ordinary shareholders of the parent company after deduction of extraordinary profit or loss	19,593	18,692
Weighted average return on equity (%)	15.68	17.01
Basic earnings per share (RMB yuan/share)	1.83	1.75

The Group has no potential diluted ordinary share.



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