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ZHONGYUAN BANK CO., LTD.*

中原銀行股份有限公司*

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

(Stock Code: 1216)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

The board of directors (the “**Board**”) of Zhongyuan Bank Co., Ltd. (the “**Bank**”) is pleased to announce the audited consolidated annual results (the “**Annual Results**”) of the Bank and its subsidiaries for the year ended December 31, 2017 (the “**Reporting Period**”) which were prepared in accordance with the International Financial Reporting Standards (“**IFRSs**”). The Board and the audit committee of the Board have reviewed and confirmed the Annual Results.

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Bank (www.zybank.com.cn). The annual report for the year ended December 31, 2017 will be dispatched to the shareholders of the Bank and will be available on the above websites in due course.

On behalf of the Board
Zhongyuan Bank Co., Ltd.
DOU Rongxing
Chairman

Zhengzhou, China

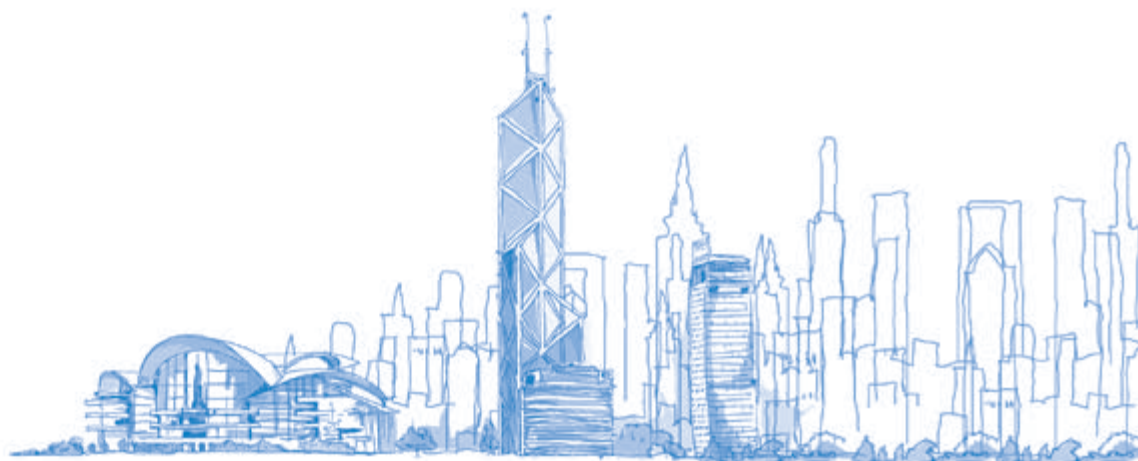
March 27, 2018

*As at the date of this announcement, the Board comprises Mr. DOU Rongxing, Mr. WEI Jie**, Mr. WANG Jiong and Mr. LI Yulin** as executive directors; Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun** as non-executive directors; Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive directors.*

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

** *The appointment of Mr. WEI Jie, Mr. LI Yulin and Mr. MI Hongjun are subject to the approval by the relevant banking authorities in the PRC.*

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Chapter 1 Corporate Information

1. Basic Corporate Profile

Chinese Name

中原银行股份有限公司* (abbreviated as 中原銀行)

English Name

ZHONGYUAN BANK CO.,LTD.* (abbreviated as ZYBANK)

Registered Office

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan province, the PRC

Headquarter in China

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan province, the PRC

Principal Business Place in Hong Kong

18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

Board of Directors

Executive Directors:

Mr. Dou Rongxing (Chairperson) ⁽¹⁾

Mr. WANG Jiong ⁽¹⁾

Mr. WEI Jie ⁽²⁾

Mr. LI Yulin ⁽²⁾

Non-Executive Directors:

Mr. LI Qiaocheng ⁽¹⁾

Mr. LI Xipeng ⁽¹⁾

Mr. MI Hongjun ⁽²⁾

Independent non-Executive Directors:

Ms. PANG Hong ⁽¹⁾

Mr. LI Hongchang ⁽¹⁾

Mr. JIA Tingyu ⁽¹⁾

Mr. CHAN Ngai Sang Kenny ⁽¹⁾

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

Chapter 1 Corporate Information

Note:

- (1) On March 16, 2018, the Bank held the first extraordinary general meeting of 2018, to re-elect each of Mr. DOU Rongxing and Mr. WANG Jiong as an executive Director, each of Mr. LI Qiaocheng and Mr. LI Xipeng as a non-executive Director, and each of Mr. LI Hongchang, Ms. PANG Hong, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as an independent non-executive Director of the second session of the Board. Ms. HU Xiangyun(胡相雲), an executive Director of the first session of the Board, did not offer herself for re-election at the first extraordinary general meeting of 2018 due to her retirement, and has retired as the vice chairperson of the Board, an executive Director, the member of Strategic and Development Committee, the Related Party Transactions Control Committee and the Executive Committee under the Board with effect from March 16, 2018. For details, please refer to the announcements dated January 20, 2018 and March 16, 2018 and the circular dated February 22, 2018 of the Bank.
- (2) On March 16, 2018, the Bank held the first extraordinary General Meeting of 2018, to appoint each of Mr. LI Yulin and Mr. WEI Jie as an executive Director, and Mr. MI Hongjun as a non-executive Director of the second session of the Board. The appointment of Mr. WEI Jie, Mr. LI Yulin and Mr. MI Hongjun are subject to the approval from the relevant banking regulatory authorities in the PRC. For details, please refer to the announcements dated January 20, 2018 and March 16, 2018 and the circular dated February 22, 2018 of the Bank.
- (3) Mr. ZHANG Bin, an executive Director of the first session of the Board, has resigned as an executive Director, the vice president, the chief information officer and a member of the Strategy Development Committee, the Risk Management Committee and the Executive Committee of the Bank with effect from December 26, 2017 due to adjustment of his work arrangement. Mr. HAO Jingtao, an executive Director of the first session of the Board, has resigned as an executive Director, the executive vice president, and a member of the Strategy Development Committee, the Related Party Transactions Control Committee, the Risk Management Committee and the Executive Committee of the Bank with effect from January 20, 2018. On March 6, 2018, Mr. HAO Jingtao was democratically elected as an employee representative Supervisor by the meeting of employee representatives of the Bank. For details, please refer to the announcements dated December 26, 2017, January 20, 2018 and March 6, 2018 of the Bank.

Chapter 1 Corporate Information

Legal Representative

Mr. Dou Rongxing

Authorized Representatives

Mr. JIA Tingyu

Mr. ZHANG Ke

Joint Company Secretaries

Mr. ZHANG Ke

Ms. LEUNG Wing Han Sharon

Unified Social Credit Code

9141000031741675X6

Financial Licence Institution Number

B0615H241010001

Auditors

PRC Auditors

KPMG Huazhen LLP

8/F, KPMG Tower, Oriental Plaza, 1 East Chang'an Avenue, Dongcheng District, Beijing, PRC

International Auditors

KPMG

8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

Legal Advisors as to PRC Laws

King & Wood Mallesons

20/F, East Tower, World Financial Center, 1 Dongsanhuan Zhonglu, Chaoyang District, Beijing, PRC

Chapter 1 Corporate Information

Legal Advisors as to Hong Kong Laws

Paul Hastings
21-22/F, Bank of China Tower, 1 Garden Road, Hong Kong

Compliance Advisor

Central China International Capital Limited
Suites 1505-1508, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Stock Code

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Investor's Enquiry

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Chapter 1 Corporate Information

1. Company Profile

Zhongyuan Bank Co., Ltd, the only provincial corporate bank in Henan, was established on December 23, 2014 with its headquarter located in Zhengzhou City, the capital of Henan Province, PRC. As of the date of this annual report, the Bank is operating under its 18 branches and 3 direct sub-branches with a total of 460 outlets and over 13,000. As a major promotor, it established 9 county banks and 1 consumer finance company and was listed on the Main Board of the Hong Kong Stock Exchange on July 19, 2017.

Since its establishment, Zhongyuan Bank has positioned itself as “approaching citizens, serving small and micro enterprises, supporting agriculture, rural areas and farmers and promoting regional economic development (貼近市民、服務小微、支持三農、推動區域經濟發展)” in the market in accordance with the development goal of “develop Zhongyuan Bank into a leading commercial bank” advocated by Henan Provincial Committee and the provincial government, actively implemented the development strategies of “offering featured products in traditional banking business, accomplishing break-through by innovation and taking first-mover advantage in developing future banking (傳統業務做特色, 創新業務找突破, 未來銀行求領先)”, and adhered to reforms and innovative development with every endeavor to support local economic construction and to serve the society, achieving good results in both operations and development. As of December 31, 2017, the total assets of the Bank amounted to RMB521.99 billion (in terms of the Group, the same below), representing an increase of 20.5% as compared to the beginning of the year, rendering a rise in ranking from 20th at its inception to 14th in scale of assets of urban commercial banks across the country. Various deposits amounted to RMB306.708 billion, representing an increase of 25.0% as compared to the beginning of the year; the Bank’s loans amounted to RMB198.903 billion, representing an increase of 20.6% as compared to the beginning of the year, all of these indicators have satisfied regulatory requirements, achieved a regulatory ranking of 2C for 3 consecutive years. The Bank was recognized as “Ten Best City Commercial Banks (年度十佳城市商業銀行)” for 3 consecutive years by Financial Times, and awarded “Best Service to Local Economy Award (最佳服務地方經濟獎)”, “Best Bank in Serving the Real Economy (最佳服務實體經濟銀行獎)”, “Financial Team with Most Contribution” (最具貢獻金融豫軍)”, “Listed Company with Most Investment Potentials (最具投資潛力上市公司)” and “Outstanding City Commercial Bank of the Year (年度卓越城商行)”. Zhongyuan Bank ranked 227th amongst the top 1000 world banks in terms of tier-one capital by The Banker (UK) in 2017 and the 35th among 126 PRC banks on this list.

In future, the Bank will proactively explore development paths of modern banks under a new environment of normal economic and financial conditions, adhere to the philosophy of technology cultivation, reforms and innovations, and people-oriented, in order to build itself as a modern joint stock commercial bank featured with clear and vivid elements and as a leading innovator in the PRC.

Chapter 1 Corporate Information

2. Major Awards in the Reporting Period and as of the date of report for the year

- (1) on November 30, 2017, the Bank received the “Golden Bauhinia Award (金紫荊獎) - Listed Company with Most Investment Potentials” (最具投資潛力上市公司獎) award from the Seventh Award of China Securities “Golden Bauhinia Award” (金紫荊獎-第七屆中國證券);
- (2) on December 6, 2017, the Bank was recognized as “Outstanding City Commercial Bank of the Year (2017年度卓越城商行)” by 21st Century Media (二十一世紀傳媒);
- (3) on December 22, 2017, the Bank was recognized as “Ten Best City Commercial Banks (年度十佳城市商業銀行)” by Financial Times;
- (4) on January 8, 2018, the Bank was awarded “Best IPO of the Year 2017 (年度最佳IPO獎)” by China Financial Market (中國融資) in 2017;
- (5) on January 19, 2018, the Bank was awarded “Golden Cicada Award (金蟬獎)” – the financial science and technology innovation bank award for 2017 by China Times.
- (6) on January 28, 2018, Dou Rongxing, the Chairperson of the Bank, was awarded “Top Economic People of the Year 2017 (2017經濟年度人物新銳獎)”.

Chapter 2 Summary of Accounting Data and Financial Indicators

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

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

	For the year ended December 31,				
	2017	2016	2017 vs 2016	2015	2014
(in millions of RMB, except percentages, unless otherwise stated)					
Operating results			Rate of change %		
Net interest income	12,201.3	11,203.3	8.9	10,548.1	9,068.9
Fee and commission income, net	769.6	449.1	71.4	134.9	96.7
Operating income	12,815.5	11,803.7	8.6	11,050.3	9,520.0
Operating expenses	(5,759.0)	(5,136.3)	12.1	(5,120.4)	(4,031.8)
Impairment losses on assets	(2,028.1)	(2,246.8)	(9.7)	(1,887.1)	(1,917.2)
Profit before tax	5,028.4	4,420.6	13.7	4,042.8	3,573.7
Net profit	3,905.7	3,360.1	16.2	3,012.4	2,668.3
Net profit attributable to equity shareholders of the Bank	3,838.7	3,359.1	14.3	2,991.4	N/A
Expressed in per share (in RMB)			Rate of change (%)		
Net assets per share attributable to equity shareholders of the Bank	2.25	2.09	7.7	1.98	1.79
Earnings per share	0.21	0.20	5.0	0.19	N/A
Profitability indicators (%)			Change		
Return on average total assets ⁽¹⁾	0.82	0.91	(0.09)	1.17	1.35
Return on average equity ⁽²⁾	9.57	9.75	(0.18)	9.81	11.67
Net interest spread ⁽³⁾	2.57	3.07	(0.50)	3.68	4.71
Net interest margin ⁽⁴⁾	2.76	3.26	(0.50)	3.96	4.97
Net fee and commission income to operating income	6.01	3.80	2.21	1.22	1.02
Cost-to-income ratio ⁽⁵⁾	44.00	41.21	2.79	39.73	35.77

Chapter 2 Summary of Accounting Data and Financial Indicators

	For the year ended December 31,				
	December 31, 2017	December 31, 2016	2017 vs 2016	December 31, 2015	December 31, 2014
(in millions of RMB, except percentages, unless otherwise stated)					
Capital adequacy ratio indicators (%) ⁽⁶⁾			Change		
Calculated based on the Administrative Measures for the Capital of Commercial Banks					
Core tier-one capital adequacy ratio	12.15	11.24	0.91	14.77	16.98
Tier-one capital adequacy ratio	12.16	11.25	0.91	14.77	16.99
Capital adequacy ratio	13.15	12.37	0.78	16.14	18.57
Total equity to total assets	8.83	8.20	0.63	10.92	13.54
Asset quality indicators			Change		
Non-performing loan ratio ⁽⁷⁾	1.83	1.86	(0.03)	1.95	1.92
Allowance coverage ratio ⁽⁸⁾	197.50	207.09	(9.59)	210.48	219.32
Allowance to gross loan ratio ⁽⁹⁾	3.62	3.85	(0.23)	4.10	4.21
Other indicators (%)					
Loan-to-deposit ratio	64.85	67.20	(2.35)	67.97	67.52
Scale indicators			Rate of change (%)		
Total assets	521,989.8	433,071.4	20.5	305,890.7	206,947.8
Of which: net loans to customers	191,708.8	158,547.3	20.9	133,876.1	106,449.8
Total liabilities	475,899.2	397,572.8	19.7	272,472.7	178,936.6
Of which: deposits from customers	306,708.3	245,352.8	25.0	205,370.4	164,595.8
Share capital	20,075.0	16,625.0	20.8	16,625.0	15,420.5
Equity attributable to shareholders of the Bank	45,268.9	34,719.3	30.4	32,945.0	27,608.9
Non-controlling interests	821.7	779.3	5.4	473.0	402.3
Total equity	46,090.6	35,498.6	29.8	33,418.0	28,011.2

Chapter 2 Summary of Accounting Data and Financial Indicators

Notes:

- (1) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- (2) Represents net profit for the period as a percentage average balance of total equity at the beginning and the end of the period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, and based on daily average interest-earning assets and interestbearing liabilities.
- (4) Calculated by dividing net interest income by the average interest-earning assets, and based on daily average interest-earning assets.
- (5) Calculated by dividing operating expenses after deduction of business tax and surcharges by operating income.
- (6) The Administrative Measures for the Capital of Commercial Banks was issued by the on June 7, 2012 and came into effect on January 1, 2013 by replacing the Administrative Measures for Capital Adequacy Ratio of Commercial Banks.
- (7) Calculated by dividing total non-performing loans and advances by gross loans to customers.
- (8) Calculated by dividing allowance for impairment losses on loans by total non-performing loans.
- (9) Calculated by dividing allowance for impairment losses on loans by gross loans to customers.

Chapter 3 Chairman's Statement

The fireworks exploding above the Victoria Harbour in the night sky were gorgeous. The sound of the gong marking the listing on the Hong Kong Stock Exchange loud and powerful. The release of a series of hit Internet new products was gratifying, shocking and emotionally exciting. Looking back of 2017 with various highlights, an indelible mark was left in the course of the reform and development of Zhongyuan Bank.

In the past year, with the concern, support and help from all of the community, the Bank concentrated on overcoming the difficulties and forged ahead. It has effectively completed the initial public offering and listing, promoted the strategic layout of "Internetization and Ruralization of Banking Services (上網下鄉)" in an all-round manner, actively drove technological innovation and digital transformation, continuously improved corporate governance, strengthened internal control compliance and risk management, and achieved good operating results.

The development of our business continued to maintain rapid growth momentum. Our asset size reached RMB521.99 billion, with an increase of 20.53%, which achieved a historical leap from a small bank to a medium-sized bank in China. With hard work day and night, we successfully completed the initial public offering and listing of H shares and were successfully listed on the main board of the Hong Kong Stock Exchange, which created the fastest record for a financial company to be listed in only two and a half years since its establishment and operation. By taking advantage of the opportunity of listing, we further improved corporate governance, actively introduced high-quality strategic investors at home and abroad, further optimized the equity structure and fully leveraged vitality of the market-based system and mechanism. Besides, with industry leaders as the benchmark, we strengthened compliance and internal control, which in turn forced the overall improvement of management, and promoted the normative and transparent operation of the "Three Meetings and One Level (三會一層)". We adhered to leading by strategies and driving by innovation, constantly improved the innovation mechanism, accelerate the transformation of innovation achievements, promoted the implementation of the "Three Major Strategies (三大戰略)" and the strategy of "Internetization and Ruralization of Banking Services (上網下鄉)", and actively embraced technological changes such as big data, block chains and artificial intelligence, conscientiously enhanced our technology and R&D strength and strove to promote the Bank's transformation into a technology bank and data-based bank. We adhered to the "people-oriented and performance-oriented (以人為本、業績導向)" principle, constantly stepped up efforts in talent training and human resources development, and optimized and upgraded the staff structure and hierarchy. Meanwhile, we unequivocally enriched the connotation of corporate culture construction, and constantly used advanced cultures to build the solidarity and cohesion for the leapfrog development of the Bank.

We are now achieving rapid development after forging ahead for three years. Through the efforts mentioned above, Zhongyuan Bank has successfully explored a successful reform road of reorganization and transformation, share issue, establishing presence throughout the province and listing in Hong Kong with the courage and vigor of "daring to be a pioneer", and achieved leapfrog development in operating efficiency, development speed, development quality and other aspects. First, our total assets have more than doubled since the beginning of its establishment and we have officially joined the ranks of medium-sized banks. Second, we are now at the forefront of urban commercial banks in China in terms of the operating efficiency and management standard and have completely changed the past situation of "small, fragmented and weak" which

Chapter 3 Chairman's Statement

was characterized by small scale, single operation and heavy historical burden. Third, we have become a public company by being listed in Hong Kong and made our stunning debut in the international capital market and won a high degree of recognition. Fourth, our status of being a provincial legal person bank has been constantly consolidated. The functions of serving entities and local economic development have been effectively brought into play, fully satisfying the actual financial needs of corporate residents in the region and supporting strategic deployments such as the construction of "Three Zones and One Cluster (三區一群)" in Henan Province. Fifth, with business qualifications and licenses becoming increasingly diversified and complete as well as the continuous improvement of the types and functions of financial products, we are equipped with the ability to use integrated financial means to provide customers with a package of one-stop financial services. Sixth, reforms and innovations have been constantly deepened. The innovation mechanism and innovation culture are firmly rooted. Innovation results have been constantly emerging. Diversified financial businesses have evolved into systems and created synergies, providing abundant accumulation and sufficient reserves for sustained, healthy and rapid development in the future.

2018 is the year for thoroughly implementing the spirit of the 19th National Congress of the Communist Party of China. It is also the first year in the critical three years of building a moderately well-off society in an all-rounded way. The energy, capacity and flexibility of the Chinese economy are more promising than the last few years. The competitiveness of the industry has been increasing. The supply-side reform and the Internet economy promoted the development of the service industry and emerging industries. The upgrading of consumption has become a new driving force and the economy progressed steadily with good momentum.

2018 is the first year in which the spirit of the 19th Communist Party of China National Congress is fully implemented and the critical year in which the 3-year plan for establishing a harmonic home is achieved. With such implementation and achievement, the economy of China has become more optimistic in respect of vitality, capacity and flexibility comparing with a few years ago with increasing industrial competitiveness, while enabling development of the services industries and the emerging industries driven by reforms on the supply side and the economy of Internet, as well as the formation of driving force with greater consumption and more obvious favorable momentum of a stable economy.

Looking forward to 2018, Zhongyuan Bank once again stands at a new starting point and opens a new journey. The new era comes with a new atmosphere and there will also be new tasks during the new journey. Facing the future, we will continue to adhere to the "Three Major Strategies (三大戰略)" and Internetization and Ruralization of Banking Services (上網下鄉)" with the guidance of the spirit of the 19th Communist Party of China National Congress. We will promote the transformation of the digital strategy in a comprehensive and in-depth way, further promote innovation driving and fine management, constantly improve quality and efficiency, and enhance core competitiveness so as to create a distinctive new model for leapfrog development in line with its own reality. We believe that with the strong support of all levels of government, regulatory authorities, shareholders, customers, partners and other parties, Zhongyuan Bank will be able to create new glories once again on the great journey of "building a first-rate commercial bank" and will create a better new chapter !

Chapter 4 President's Statement

In 2017, Zhongyuan Bank continued to adhere to its core values and remained committed to its missions. Our Bank made great efforts in ensuring compliance with requirements of various regulatory agencies, fully implemented the decisions and arrangements of our Board of Directors, strictly followed our strategies of “offering featured products in traditional business, accomplishing break-through in innovated business and taking first-mover advantage in developing future business (傳統業務做特色,創新業務求突破,未來業務求領先)”, firmly implemented our strategy of “Internetization and Ruralization of Banking Services (上網下鄉)”, continuously promoted business transformation and upgrading, improved risk management and internal control, developed financial technology in all aspects and improved the establishment of a talented team, all of which contributed to our success in achieving our expected targets.

In 2017, Zhongyuan Bank actively carried out its responsibilities to the shareholders with a continuous enhancement in its comprehensive capabilities. As of 31 December, 2017, the total assets of our Bank reached RMB529.9 billion, increased by RMB88.9 billion or 20.53% from the beginning of the year, our Bank then turned into a medium-sized domestic bank. Our Bank realized net operating income of RMB12,815 million, representing an increase of RMB1,012 million or 8.57% year-on-year, and recorded net profit of RMB3,906 million, representing an increase of RMB546 million or 16.24% year-on-year. Our Bank's credit rating was upgraded to AAA. According to the ranking provided by The Banker magazine of UK, our Bank ranked 227th among global banks and ranked 35th among Chinese-funded banks in terms of tier-one capital, and according to a report on the competitiveness of Asian banks, our Bank ranked 7th among other city commercial banks of China in terms of comprehensive competitiveness.

In 2017, Zhongyuan Bank continued to focus on its core financial business and to promote the transformation and upgrading of its business. Our Bank endeavoured to strengthen the strategic cooperation with government authorities, actively served the supply-side structural reform, obtained necessary qualification for credit asset securitization, promoted the issuance of new types of bonds such as green financial bonds and innovative start-up financial bonds and propelled the transformation of traditional investments banks to integrated investment banks. Our Bank vigorously broadened its core customer base from the upstream and downstream enterprises and the warehouse and logistics companies, and boosted the development of transaction banking services. Our Bank promoted the sales of Mingbai Card (明白卡) in counties and towns, and effectively expanded its business at the county and township-level. Our Bank established cooperation with external parties such as Ant Financial and Zhongyuan Agricultural Insurance, and contributed to improve the business system in favour of agricultural industry.

In 2017, Zhongyuan Bank closely monitored its compliance and risk management, and strengthened the establishment of its internal control system. Our Bank carried out a comprehensive review of its internal control system, during which 395 rules and regulations were being examined and revised to further optimize its internal control system. Our Bank enhanced its risk identification capability, which enabled us to have a better understanding of the risk profile of the industry and our customers and the future trend. Our analysis and management capabilities with regards to market risk, technology risk and cross-financial business risk continued to improve, and we successfully completed our business continuity exercise. Our Bank took the lead in the formulation of liquidity mutual aid mechanism for city commercial banks in Henan province, with an aim to effectively mitigate the liquidity risk faced by regional city commercial banks.

Chapter 4 President's Statement

In 2017, Zhongyuan Bank welcomed the trend towards digitalization and vigorously developed financial technology. Our Bank strived to develop itself into a “technology bank” and “data-based bank”, and launched APPs such as 4.0 mobile banking and Zhongyuan Wallet (中原錢包), constantly optimized and updated online products such as Yong Xu Dai (永續貸) and Zhong Yuan Miao Dai (中原秒貸), and made efforts in delivering an excellent customer experience. With the safe and reliable operation of our “two locations, three centers (兩地三中心)” disaster recovery system, our ability in infrastructure protection was significantly improved. The joint cooperation of our Bank, well-known internet companies, big data enterprises and universities and scientific research institutions within or outside the country to explore cutting-edge financial technologies and its applications contributed to form a new landscape for the internet financial business.

In 2017, Zhongyuan Bank dedicated to strengthen team construction and continued to reinforce its development foundation. Our Bank launched overseas talent recruitment and campus recruitment exercises, built up an internal multi-level and multi-channel training system, set up financial laboratories in cooperation with internationally-renowned universities, established postdoctoral innovation practice bases, established its own teams with outstanding professional capabilities in investment banking, transaction banking, direct sales banking and information technology, and enhanced the market awareness, risk awareness and compliance awareness of its marketing and management teams, all of which contributed to form a strong driver for our future development and made great improvement in the overall quality of our team.

Although in face of the complicated and ever-changing economic and financial situation, Zhongyuan Bank achieved remarkable results for the year. Our success is attributable to the strong support of our customers, investors and the community. On behalf of Zhongyuan Bank, I would like to take this opportunity to express my sincere gratitude to various parties in the community who give their concern and support to the development of Zhongyuan Bank.

The year 2018 is the starting year for Zhongyuan Bank's new three-year plan and is also the first year to fully implement the guiding principles of the 19th Community Party of China National Congress. Entering the new era, Zhongyuan Bank, with an innovative spirit and enthusiasm, will adopt a firm and pragmatic attitude towards quality improvement, efficiency enhancement and sustainable development, accelerate the technological transformation of financial sectors and continuously improve the risk control system to maximize returns for the community with outstanding operating results.

Chapter 5 Management Discussion and Analysis

1. PAST ECONOMY AND ENVIRONMENT AND FUTURE PROSPECTS

During the Reporting Period, under the sustained recovery of global economy, main economies experienced improved economic momentum, driving a rapid growth in the global economy of 3%. American economy was steady in general with adequate driver for organic growth and continuous improvement in its core economic indicators. European economy was further recovered and political risks were mitigated to certain extent. Japanese economy was relatively moderate and its monetary policies maintained a loose tone. The emerging economies accelerated their recovery on the whole with some differentiation in various regions.

During the Reporting Period, Chinese economy developed steadily. Its economic vigour and potential were released constantly, the stability, coordination and sustainability were further enhanced and main economic indicators were under steady progress. GDP grew at 6.9%, representing an increase of 0.2 percentage point over last year. Consumption grew at a steady and rapid rate with the annual per capita consumption expenditure of RMB18,322, representing an increase of 7.1% over last year. The general public national budget revenue exceeded RMB17 trillion, representing an increase of 7.4% over last year. The national foreign exchange reserve amounted to US\$3,139,900 million, representing an increase of US\$129,400 million over the end of last year, ranking the first in the world in terms of foreign exchange reserve. In 2017, China contributed 30% to the global economic growth, rendering it to be a key driver for the global economic recovery.

During the Reporting Period, main economic indicators of Henan Province were higher than the average of China with a further optimization of its economic structure. The provincial GDP was RMB4.5 trillion, representing an increase of 7.8% over last year, of which secondary and tertiary industries accounted for 90.4% and the proportion of service industry increased by 0.9 percentage points. Total financial revenue amounted to RMB523,840 million, representing an increase of 10.7% over last year. The deposit and loan balance of financial institutions in domestic and foreign currencies exceeded RMB6 trillion and RMB4 trillion, respectively. The urbanization rate of permanent residents exceeded 50%, representing an increase of 1.66 percentage points over the end of last year, leading to a significant change in urban and rural structure. In 2017, Henan Province secured a more prominent position as an important economic growth sector in China.

During the Reporting Period, the Central Bank continued to pursue steady and neutral monetary policies with preliminary results achieved under a dual pillar regulatory framework of monetary policies and macro-prudential policies. The broad money supply (M2) amounted to RMB167.7 trillion, representing an increase of 8.2% over the end of last year. The balance of RMB-denominated loan amounted to RMB120.1 trillion, representing an increase of RMB13.5 trillion or 12.7% over the beginning of the year and RMB878,200 million over last year. The all-system financing aggregates were RMB174.6 trillion, representing an increase of 12.0% over the end of last year. The interbank market exchange rate index was 94.85, 0.02% up over the year. Such dual pillar regulatory framework has laid a solid financial foundation for supply-side reform and economic restructuring.

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2. OVERALL OPERATION OVERVIEW

In 2017, faced with complicated economic and financial situations as well as various difficulties and challenges, the Bank strived to overcome difficulties for sound economic efficiencies and development achievements through sticking to the core value of “stability, innovation, motivation and efficiency (穩健、創新、進取、高效)”, seizing opportunities for development in the new era, fully promoting the implementation of “Three Major Strategies (三大戰略)” and “Internetization and Ruralization of Banking Services (上網下鄉)”, actively advancing scientific innovation and digital transformation, consistently improving corporate governance and effectively enhancing risk prevention and control, in order to fulfil a spanning development.

The rapid growth in the business scale and the continuous improved structure of assets and liabilities. As of December 31, 2017, the Bank’s total assets increased by approximately RMB88,918 million or 20.5% to approximately RMB 521,990 million from the beginning of 2017, ranking it among the medium-sized banks. Meanwhile, the structure of assets and liabilities of the Bank was continuously improved. Firstly, the Bank continuously increased the proportion of revenue and assets. As of December 31, 2017, net amount of loans and investment receivables amounted to approximately RMB290,473 million, representing an increase of approximately RMB73,247 million or 33.7% as compared to the beginning of 2017, and the percentage of loans and investment receivables in total assets increased from 50.2% at the beginning of 2017 to 55.6%. Secondly, the Bank continuously improved the proportion of low-cost liabilities by actively accepting of normal deposits which were stable and with lower costs. As of December 31, 2017, the balance of normal deposits of the Bank was approximately RMB306,708 million, representing an increase of approximately RMB61,356 million or 25.0% as compared to the beginning of 2017, which as a percentage of total liabilities increased from 61.7% at the beginning of 2017 to 64.4%. Meanwhile, the Bank continued to reduce the proportion of interbank liabilities to total liabilities (excluding interbank certificates of deposit) to 18.1% at the end of the year from 20.8% at the beginning of 2017. Facing the market environment with upward interest rates, the Bank continued to optimize the structure of assets and liabilities through enhancing asset and liability pricing and duration management, guiding operating agencies to gradually increase their return on assets and enlarging the absorption of normal deposits.

The effective growth in the economic efficiencies and the continuous improved structure of revenue. During the Reporting Period, the Bank recorded net operating income of approximately RMB12,815 million, representing an increase of approximately RMB1,012 million or 8.6% over last year and recorded net profit of approximately RMB3,906 million, representing an increase of approximately RMB546 million or 16.2% over last year which was 13.6 percentage points higher than an increase in inter-bank net profit of Henan Province. The Bank continuously optimized its structure of revenue and strengthened the management and planning of non-interest business to realize a rapid growth in fee and commission income. During the Reporting Period, the Bank recorded fee and commission income of approximately RMB770 million, representing an increase of approximately RMB321 million or 71.4%.

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The continuous enhancement in our foundation for development and the significant improvement in our market influence. The Bank has an increasing customer base. As of 31 December 2017, corporate clients of the Bank reached 176,000, representing an increase of 20,000 over the beginning of the year, and private customers exceeded 10 million and reached 10.36 million, representing an increase of 1.92 million over the beginning of the year. The institutional layout was constantly optimized with a total of 460 outlets, of which 37 outlets were newly established and 62 outlets were optimized. The strategic platform was increasingly diversified. Consumer Finance Company enjoyed a bright future for development. Brand value was constantly improved. Since the Bank was successfully listed on the Main Board of Hong Kong Stock Exchange on July 19, 2017, its capital strength, market competition and social influence have been significantly enhanced. The Bank was awarded the AAA top credit rating in domestic corporate credit rating and was recognized as “The Top 10 City Commercial Bank (年度十佳城市商業銀行)” by Financial News (金融時報) for the three consecutive years.

The continuous improvement in innovative capabilities and the steady progress in the transformation of science and technology. Firstly, business qualifications were constantly improved and product system were consistently diversified. During the Reporting Period, the Bank was granted key business qualifications including interbank trial market maker, government debt underwriting syndicate and credit asset securitization business which further promoted the innovative development of the Bank. Innovation business was consistently carried out through introduction of businesses such as gold leasing, gold accumulation, foreign exchange trade and credit debt underwriting and distribution, smooth operation of investment and fee payment service, involvement in the first national bond connect business and bond swap business, which further consolidated the foundation for development and enhanced the capabilities of the Bank in adapting to market competition and meeting the demand of customers. Secondly, scientific transformation was steadily pushed forward and online work was fully promoted. For retail business, online products, channels, marketing and operations formed a preliminary system, APPs for mobile banking and direct sale banking were upgraded consistently and some functions were ahead of the industry, leading to preliminary online advantages. For corporate banking, “Cloud Account” was developed in respect of corporate clients, thereby greatly improving the efficiencies in account opening. For business hall, the construction of intelligent halls was accelerated through transformation of counter dealing process for business segregation and removal of non-cash counters. For risks, a risk alert system was initiated, a big data retail risk model was put into development and a series of online core projects was put into operations. Thirdly, new technological applications were broadened and digital strategic transformation was promoted. The artificial intelligent technologies such as biometric identification and AI advisor were applied to counters and channels to enhance online and intelligent service level. The technological framework of big data basic platform was gradually improved through completion of skill migration of main business data to such platform across the Bank which has laid a foundation for subsequent application of big data. Fourthly, mechanism of innovation was gradually improved, and innovative concepts were widely promoted. An innovation management committee was set up to increase resource support and progress supervision, formulate incentive systems for innovation, define innovation types and actively foster culture of innovation.

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The continuously stable asset quality and the continuously improved risk control capabilities. The Bank continued to implement the “reducing old loans and controlling new loans (降舊控新)” to effectively control the loan quality. As of 31 December 2017, the non-performing loan ratio of the Bank was 1.83%, representing a decrease of 0.03 percentage point over the beginning of the year, leading to stable asset quality. The Bank has always considered enhancement of internal control and management, emphasis on risk prevention and promotion of compliance operations as its first priority in all of work. Following the concept of “strict compliance with laws and regulations (依法合規,從嚴治行)”, the Bank established a sound three-dimensional internal control and management and risk prevention system through continuously focusing on and actively responding to various hidden risks under the complicated business environment, exploring and conducting internet risk control study and fostering compliance culture. Therefore, the compliance management awareness of staff was constantly strengthened, risk prevention and control capabilities were steadily enhanced and sound compliance cultural atmosphere was formed step by step, which has laid a solid foundation for sustainable development in the future.

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3. ANALYSIS ON INCOME STATEMENT

For the year ended December 31, 2017, the Bank recorded profit before taxation and net profit of approximately RMB5,028 million and RMB3,906 million, representing an increase of approximately 13.7% and 16.2% as compared to last year, respectively.

	For the year ended December 31,			Rate of Change
	2017	2016	Change	
	(in millions of RMB, except percentages)			
Interest income	21,250.2	17,005.1	4,245.1	25.0%
Interest expense	(9,048.9)	(5,801.8)	(3,247.1)	56.0%
Net interest income	12,201.3	11,203.3	998.0	8.9%
Fee and commission income	903.8	510.3	393.5	77.1%
Fee and commission expense	(134.2)	(61.2)	(73.0)	119.3%
Net fee and commission income	769.6	449.1	320.5	71.4%
Net trading losses	(379.3)	(71.7)	(307.6)	429.0%
Net (losses)/gains arising from investments securities	(0.4)	9.1	(9.5)	(104.4%)
Other operating income ⁽¹⁾	224.3	213.9	10.4	4.9%
Operating income	12,815.5	11,803.7	1,011.8	8.6%
Operating expenses	(5,759.0)	(5,136.3)	(622.7)	12.1%
Impairment losses on assets	(2,028.1)	(2,246.8)	218.7	(9.7%)
Operating profit	5,028.4	4,420.6	607.8	13.7%
Profit before taxation	5,028.4	4,420.6	607.8	13.7%
Income tax	(1,122.7)	(1,060.5)	(62.2)	5.9%
Net profit	3,905.7	3,360.1	545.6	16.2%
Net profit attributable to shareholders of the Bank	3,838.7	3,359.1	479.6	14.3%
Gains of minority interests	67.0	1.0	66.0	6600.0%

Note:

- (1) Other operating income includes government subsidies, rental income, net gains arising from disposal of property and equipment and others.

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3.1 Net interest income, net interest spread and net interest margin

For the year ended December 31, 2017, the Bank recorded net interest income of approximately RMB12,201 million, representing an increase of approximately RMB998 million or 8.9% as compared to last year. Among this, a net interest income growth of RMB1,889 million as compared to 2016 was attributable to the expansion of the Bank's business scale and a decline in net interest income of approximately RMB891 million was attributable to the changes in yield or cost rate.

The following table sets forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income or expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities for the years ended December 31, 2016 and 2017.

	For the year ended December 31,					
	2017			2016		
	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾ (in millions of RMB, except percentages)	Average balance	Interest income/expense	Average yield/cost
Interest-earning assets						
Total loans	184,105.5	10,922.8	5.93%	159,482.2	10,091.6	6.33%
Investment securities and other financial assets ⁽²⁾	195,951.8	9,228.2	4.71%	137,191.8	6,081.9	4.43%
Deposits with Central Bank	42,806.4	639.7	1.49%	36,940.6	546.1	1.48%
Deposits with bank and other financial institutions	9,556.4	162.8	1.70%	4,635.7	101.0	2.18%
Financial assets held under resale agreements	7,305.1	222.0	3.04%	4,573.2	141.0	3.08%
Placements with banks and other financial institutions	1,889.4	74.7	3.95%	1,185.8	43.5	3.67%
Total interest-earning assets	441,614.6	21,250.2	4.81%	344,009.3	17,005.1	4.94%
Interest-bearing liabilities						
Deposits from customers	273,268.6	3,931.7	1.44%	227,964.8	3,394.3	1.49%
Financial assets sold under repurchase agreements	22,449.4	646.0	2.88%	20,841.7	476.5	2.29%

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	For the year ended December 31,					
	2017			2016		
	Average balance	Interest income/ expense	Average yield/cost ⁽¹⁾	Average balance	Interest income/ expense	Average yield/cost
(in millions of RMB, except percentages)						
Placements from banks and other financial institutions	3,489.8	114.0	3.27%	479.0	13.9	2.90%
Borrowings from Central Bank	2,043.6	62.4	3.05%	927.3	28.0	3.02%
Deposits from banks and other financial institutions	40,295.4	1,705.4	4.23%	35,388.2	1,161.2	3.28%
Debt securities issued ⁽³⁾	61,421.5	2,589.4	4.22%	23,857.7	727.9	3.05%
Total interest-bearing liabilities	402,968.3	9,048.9	2.24%	309,458.7	5,801.8	1.87%
Net interest income		12,201.3			11,203.3	
Net interest spread ⁽⁴⁾			2.57%			3.07%
Net interest margin ⁽⁵⁾			2.76%			3.26%

Notes:

- (1) Calculated by dividing interest income/expense by average balance.
- (2) Consist of financial assets at fair value through profit or loss for the current period, available-for-sale financial assets, held-to-maturity investments and investment receivables.
- (3) Mainly consist of interbank deposits issued.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of total interest-earning assets.

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

	For the year ended December 31,		
	2017 vs 2016		
	Reasons for increase/(decrease)		
	Volume ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
	(in millions of RMB)		
Interest-earning assets			
Loans and advances to customers	1,460.9	(629.7)	831.2
Investment securities and other financial assets	2,767.3	379.0	3,146.3
Deposits with the Central Bank	87.7	5.9	93.6
Deposits with banks and other financial institutions	83.8	(22.0)	61.8
Financial assets held under resale agreements	83.0	(2.0)	81.0
Placements with banks and other financial institutions	27.8	3.4	31.2
Changes in interest income	<u>4,510.5</u>	<u>(265.4)</u>	<u>4,245.1</u>
Interest-bearing liabilities			
Deposits from customers	651.8	(114.4)	537.4
Financial assets sold under repurchase agreements	46.3	123.2	169.5
Placements from banks and other financial institutions	98.4	1.7	100.1
Borrowings from Central Bank	34.1	0.3	34.4
Deposits from banks and other financial institutions	207.7	336.5	544.2
Debt securities issued	1,583.6	277.9	1,861.5
Changes in interest expense	<u>2,621.9</u>	<u>625.2</u>	<u>3,247.1</u>

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Notes:

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

3.2 Interest Income

For the year ended December 31, 2017, the Bank's interest income increased by approximately RMB4,245 million or approximately 25.0% to approximately RMB21,250 million as compared to the same period last year, primarily attributable to (i) the increase in the volume of loans and advances to customers and (ii) the increase in the volume of investment securities and other financial assets.

3.2.1 Interest income from loans and advances to customers

For the year ended December 31, 2017, the Bank's interest income from loans and advances to customers increased by approximately RMB831 million or approximately 8.2% to approximately RMB10,923 million as compared to the same period last year, primarily attributable to the Bank's stronger support on product innovation leading to the overall increase in the granting of loans. With respect to the corporate business, the Bank increased its support on the real economy by developing new products including Xu Dai Bao (續貸寶), tax receipt loans and Science and Technology Loans (科技貸) for small enterprises. As for the retail business, the Bank successively launched innovative products such as "Yong Xu Dai (永續貸)" and "Miao Dai (秒貸)", showing its stronger support on the consumption to grow. The average balance of loans increased from approximately RMB159,482 million to RMB184,106 million, while the average yield decreased from 6.33% to 5.93%, primarily attributable to a continued downward trend of market lending interest rate in the first half of 2017 which, despite a gradual growth in new loans in the second half, was not offset by a decrease in interest rate of outstanding loans, leading to the annual average interest rate lower than the same period last year.

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

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	For the year ended December 31,					
	2017			2016		
	Average balance	Interest income/ expense	Average yield/cost	Average balance	Interest income/ expense	Average yield/cost
	(in millions of RMB, except percentages)					
Corporate loans	118,030.5	7,191.9	6.09%	109,753.4	7,329.2	6.68%
Discounted bills	5,408.0	277.7	5.13%	14,341.1	437.5	3.05%
Personal loans	60,667.0	3,453.2	5.69%	35,387.7	2,324.9	6.57%
Total	<u>184,105.5</u>	<u>10,922.8</u>	<u>5.93%</u>	<u>159,482.2</u>	<u>10,091.6</u>	<u>6.33%</u>

3.2.2 Interest income from investment securities and other financial assets

For the year ended December 31, 2017, the Bank's interest income from investment securities and other financial assets increased by approximately RMB3,146 million or approximately 51.7% to approximately RMB9,228 million as compared to the same period last year, primarily attributable to the increase in the average balance and the average yield of investment securities and other financial assets. The increase in the average balance of investment securities and other financial assets was primarily due to the Bank's optimization of its asset structure and increase in investments in asset management plans, trust plans and wealth management plans with high yields. The increase in the average yield was due to an increase in percentage of high yield assets.

3.2.3 Interest income from deposits with the Central Bank

For the year ended December 31, 2017, the Bank's interest income from deposits with the Central Bank increased by approximately RMB94 million or approximately 17.1% to approximately RMB640 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits with the Central Bank and the increase in the average yield. The increase in the average balance of deposits with the Central Bank was primarily attributable to an increase in deposits from customers resulting in the growth in the size of deposit reserves.

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3.2.4 Interest income from deposits with banks and other financial institutions

Interest income from deposits with banks and other financial institutions increased by approximately RMB62 million to approximately RMB163 million for the year ended December 31, 2017 from approximately RMB101 million for the year ended December 31, 2016, primarily attributable to the increase in the average balance of deposits with banks and other financial institutions of approximately RMB4,920 million to approximately RMB9,556 million for the year ended December 31, 2017 from approximately RMB4,636 million for the year ended December 31, 2016.

3.2.5 Interest income from financial assets held under resale agreements

Interest Income from financial assets held under resale agreements increased by approximately RMB81 million to approximately RMB222 million for the year ended December 31, 2017 from approximately RMB141 million for the year ended December 31, 2016, primarily attributable to the increase in the average balance of financial assets held under resale agreements of approximately RMB2,732 million to approximately RMB7,305 million for the year ended December 31, 2017 from approximately RMB4,573 million for the year ended December 31, 2016.

3.2.6 Interest income from placements with banks and other financial institutions

Interest income from placements with banks and other financial institutions increased by approximately RMB31 million to approximately RMB75 million for the year ended December 31, 2017 from approximately RMB44 million for the year ended December 31, 2016, primarily attributable to the increase in the average balance of placements with banks and other financial institutions of approximately RMB703 million to approximately RMB1,889 million for the year ended December 31, 2017 from approximately RMB1,186 million for the year ended December 31, 2016.

3.3 Interest Expense

For the year ended December 31, 2017, the Bank's interest expense increased by approximately RMB3,247 million or approximately 56.0% to approximately RMB9,049 million as compared to the same period last year, primarily attributable to (i) the increase in the volume of deposits from customers, debt securities issued and deposits from banks and other financial institutions; (ii) the increase in the costs of interbank liabilities.

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3.3.1 Interest expense on deposits from customers

For the year ended December 31, 2017, the Bank's interest expense on deposits from customers increased by approximately RMB537 million or approximately 15.8% to approximately RMB3,932 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits from customers of the Bank. The increase in the average balance of deposits from customers of the Bank was primarily due to our efforts to develop our corporate banking and personal banking businesses and to improve service quality and drive growth of deposits. The decrease in the average cost of deposits from customers was primarily due to the Bank's optimization of its structure of deposits and the increase in proportions of demand deposits.

	For the year ended December 31,					
	2017			2016		
	Average balance	Interest income/expense	Average yield/cost	Average balance	Interest income/expense	Average yield/cost
			(in millions of RMB, except percentages)			
Corporate deposits						
Demand	104,181.4	699.6	0.67%	72,610.6	491.5	0.68%
Time	58,545.7	1,074.8	1.84%	57,906.6	991.7	1.71%
Sub-total	162,727.1	1,774.4	1.09%	130,517.2	1,483.2	1.14%
Personal deposits						
Demand	36,409.0	273.1	0.75%	25,798.6	103.3	0.40%
Time	74,132.5	1,884.2	2.54%	71,649.0	1,807.8	2.52%
Sub-total	110,541.5	2,157.3	1.95%	97,447.6	1,911.1	1.96%
Total deposits from customers	273,268.6	3,931.7	1.44%	227,964.8	3,394.3	1.49%

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3.3.2 Interest expense on deposits from banks and other institutions

For the year ended December 31, 2017, the Bank's interest expense on deposits from banks and other financial institutions increased by approximately RMB544 million or approximately 46.9% to approximately RMB1,705 million as compared to the same period last year. The increase in the interest expense on deposits from banks and other financial institutions was primarily attributable to the increase in the average cost. The increase in the average cost was primarily attributable to a higher cost due to tightening liquidity in the market caused by the deleveraging policy of the Central Bank.

3.3.3 Interest expense on debt securities issued

For the year ended December 31, 2017, the Bank's interest expense on debt securities issued increased by approximately RMB1,862 million or approximately 255.7% to approximately RMB2,589 million as compared to the same period last year, primarily attributable to the increase in the average balance of debt securities issued and the increase in the average cost. The increase in the average balance of debt securities issued by the Bank was primarily attributable to the increase in the issue size of interbank certificates of deposit. The increase in the average cost was primarily attributable to a higher interbank market interest rate.

3.3.4 Net interest spread and net interest margin

For the year ended December 31, 2017, the Bank's net interest spread decreased from 3.07% for last year to 2.57% for the current year, while the Bank's net interest margin decreased from 3.26% for last year to 2.76% for the current year. The decreases in net interest spread and net interest margin were primarily attributable to (i) consecutive benchmark interest rate cuts move by the PBoC since 2015 and a decline in the average yield of the interest-earning assets as a result of the intensified market competition due to the interest rate liberalization; (ii) a higher interbank market interest rate as the monetary policy during the year ended December 31, 2017 was tighter than that in 2016 and the increase in the average cost of interbank liabilities.

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3.4 Non-interest income

3.4.1 Fee and commission income

For the year ended December 31, 2017, the Bank's net fee and commission income increased by approximately RMB321 million or approximately 71.4% to approximately RMB770 million as compared to the same period last year, primarily attributable to the increase in the scale of investment banking because the Bank actively expanded its intermediate businesses.

	For the year ended December 31,			
	2017	2016	Change	Rate of Change
	(in millions of RMB, except percentages)			
Net fee and commission income				
Bank card service fees	36.4	39.0	(2.6)	(6.7%)
Settlement and clearing service fees	89.8	61.4	28.4	46.3%
Agency service income	93.1	47.9	45.2	94.4%
Underwriting service income	113.8	26.8	87.0	324.6%
Acceptance and guarantee service fees	60.7	48.5	12.2	25.2%
Advisory and consulting fees	109.6	27.8	81.8	294.2%
Custodial service fees	230.6	26.1	204.5	783.5%
Wealth management business fees	169.8	232.8	(63.0)	(27.1%)
Sub-total	903.8	510.3	393.5	77.1%
Fee and commission expenses	(134.2)	(61.2)	(73.0)	119.3%
Net fee and commission income	769.6	449.1	320.5	71.4%

For the year ended December 31, 2017, the Bank realized advisory and consulting fees income of approximately RMB110 million, representing an increase of approximately RMB82 million as compared to the same period last year, primarily attributable to the Bank's continuous development of advisory and consulting business with a constant increase in the number of customers and business volume.

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For the year ended December 31, 2017, the Bank realized custody service fees income of approximately RMB231 million, representing an increase of approximately RMB205 million as compared to the same period last year, primarily attributable to the Bank's active development of capital custody business with an increase in the scale of custody services offered.

For the year ended December 31, 2017, the Bank realized agency service income of approximately RMB93 million, representing an increase of approximately RMB45 million as compared to the same period last year, primarily attributable to the Bank's continued development of agency business and expansion of service channel.

For the year ended December 31, 2017, the Bank realized underwriting service income of approximately RMB114 million, representing an increase of approximately RMB87 million as compared to the same period last year, primarily attributable to the Bank's continuous development of underwriting business with an increase in the scale of services offered.

3.4.2 Net trading losses

For the year ended December 31, 2017, the Bank's net trading losses were approximately RMB379 million, representing an increase of approximately RMB308 million as compared to the same period last year, primarily attributable to foreign exchange losses of approximately RMB222 million incurred on the Bank as a result of fluctuations in exchange rates.

3.4.3 Net (losses)/gains arising from investment securities

For the year ended December 31, 2017, the Bank's net losses arising from investment securities were approximately RMB0.4 million, representing a decrease in gains of approximately RMB9.5 million as compared to the same period last year.

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3.5 Operating expenses

For the year ended December 31, 2017, the Bank's operating expenses increased by approximately RMB623 million or approximately 12.1% to approximately RMB5,759 million as compared to the same period last year, primarily attributable to the growths in staff costs, depreciation and amortisation and other general and administrative expenses caused by the listing of the Bank, the implementation of the strategy of "Internet and Rural Banking Services", realizing full coverage of outlets and increase in technological input.

	For the year ended December 31,			
	2017	2016	Change	Rate of Change
	(in millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	2,343.9	1,983.5	360.4	18.2%
Staff welfare	215.3	186.0	29.3	15.8%
Social insurance and annuity	377.0	283.6	93.4	32.9%
Housing fund	129.7	102.2	27.5	26.9%
Employee education expenses and labor union expenses	103.3	87.7	15.6	17.8%
Others ⁽¹⁾	61.0	41.5	19.5	47.0%
Sub-total of staff costs	3,230.2	2,684.5	545.7	20.3%
Tax and surcharges	120.2	271.8	(151.6)	(55.8%)
Depreciation and amortisation	722.5	671.2	51.3	7.6%
Other general and administrative expenses	1,686.1	1,508.8	177.3	11.8%
Total	5,759.0	5,136.3	622.7	12.1%

Note:

(1) Primarily included expenses relating to dispatched staff.

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For the year ended December 31, 2017, staff costs increased by approximately RMB546 million or approximately 20.3% to approximately RMB3,230 million as compared to the same period last year, primarily attributable to the increase in salaries, bonuses and allowances as well as social insurance and annuities and staff welfare expenses as a result of the increase in staff headcount of the Bank. Staff costs represented the largest component of the Bank's operating expenses, and respectively accounted for approximately 56.1% and 52.3% of the total operating expenses for the years ended December 31, 2017 and 2016.

For the year ended December 31, 2017, depreciation and amortisation expenses increased by approximately RMB51 million or approximately 7.6% to RMB723 million as compared to the same period last year, primarily attributable to our intensified and continuous efforts on the construction of information technology system, aiming at a "technology-based bank", plus its additional investment on new outlets to realize full coverage of outlets in Henan Province.

For the year ended December 31, 2017, tax and surcharges amounted to approximately RMB120 million, representing a decrease of approximately RMB152 million or approximately 55.8% as compared to the same period last year. The decrease was primarily due to the exclusion of business tax after a value-added tax was imposed instead of the business tax on May 1, 2016.

For the year ended December 31, 2017, other general and administrative expenses increased by approximately RMB177 million or approximately 11.8% to approximately RMB1,686 million as compared to the same period last year. Other general and administrative expenses primarily include office expenses, rentals and property management fees, business marketing expenses and others.

3.6 Impairment losses

For the year ended December 31, 2017, the Bank's impairment losses decreased by approximately RMB219 million or approximately 9.7% to approximately RMB2,028 million as compared to the same period last year, primarily attributable to more rigorous disposal of non-performing assets of the Bank and the recovery of more written-off assets and non-performing assets.

	For the year ended December 31,			
	2017	2016	Change	Rate of Change
	(in millions of RMB, except percentages)			
Loans and advances to customers	1,221.9	1,994.6	(772.7)	(38.7%)
Debt securities classified as receivables	45.4	76.6	(31.2)	(40.7%)
Other assets ⁽¹⁾	760.8	175.6	585.2	333.3%
Total impairment losses	2,028.1	2,246.8	(218.7)	(9.7%)

Note:

(1) Primarily include the impairment losses of available-for-sale financial assets and other receivables.

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3.7 Income tax expense

For the year ended December 31, 2017, the Bank's income tax increased by approximately RMB62 million or approximately 5.9% to approximately RMB1,123 million, primarily attributable to the increase in the Bank's profit before taxation.

	For the year ended December 31,			Rate of Change
	2017 (in millions of RMB, except percentages)	2016	Change	
Current income tax	1,517.7	1,345.5	172.2	12.8%
Deferred income tax	(395.0)	(285.0)	(110.0)	38.6%
Total income tax expenses	<u>1,122.7</u>	<u>1,060.5</u>	<u>62.2</u>	<u>5.9%</u>

4. ANALYSIS ON KEY ITEMS OF ASSETS AND LIABILITIES

4.1 Assets

As of December 31, 2017, the Bank's total assets increased by approximately RMB88,918 million or approximately 20.5% to approximately RMB521,990 million as compared to the end of last year. The principal components of the Bank's assets consist of (i) loans and advances to customers (net); and (ii) investment securities and other financial assets, which increased by approximately RMB33,162 million and approximately RMB43,928 million, respectively as compared to the end of last year.

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

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	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Gross loans and advances to customers	198,902.9	38.1%	164,888.5	38.1%
Allowance for impairment losses	(7,194.1)	(1.4%)	(6,341.2)	(1.5%)
Loans and advances to customers, net	191,708.8	36.7%	158,547.3	36.6%
Investment securities and other financial assets	226,924.2	43.5%	182,996.0	42.3%
Financial assets held under resale agreements	12,988.6	2.5%	6,573.6	1.5%
Cash and deposits with Central Bank	64,369.4	12.3%	49,370.9	11.4%
Deposits with banks and other financial institutions	8,923.8	1.7%	12,830.5	3.0%
Placements with banks and other financial institutions	1,363.4	0.3%	8,700.0	2.0%
Other assets ⁽¹⁾	15,711.6	3.0%	14,053.1	3.2%
Total assets	521,989.8	100.0%	433,071.4	100.0%

Note:

- (1) Consist primarily of properties and equipment, deferred income tax assets, goodwill and other assets.

4.1.1 Loans and advances to customers

As of December 31, 2017, the Bank's gross loans and advances to customers increased by approximately RMB34,014 million or approximately 20.6% to approximately RMB198,903 million as compared to the end of last year. The Bank's loans and advances to customers consist of corporate loans, personal loans and discounted bills.

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

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate loans	112,849.6	56.7%	110,633.0	67.1%
Personal loans	73,931.1	37.2%	44,659.8	27.1%
Discounted bills	12,122.2	6.1%	9,595.7	5.8%
Total loans to customers	198,902.9	100.0%	164,888.5	100.0%

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(1) Corporate loans

Corporate loans are the largest component of the Bank's loan portfolio. As of December 31, 2017, the Bank's corporate loans increased by approximately RMB2,217 million or approximately 2.0% to approximately RMB112,850 million as compared to the end of last year, representing approximately 56.7% of the Bank's gross loans to customers, primarily attributable to the Bank's efforts to develop its corporate loan business.

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

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Unsecured loans	5,423.7	4.8%	6,317.5	5.7%
Guaranteed loans	61,708.3	54.7%	59,771.0	54.0%
Collateralized loans	33,667.7	29.8%	35,236.4	31.8%
Pledged loans	12,049.9	10.7%	9,308.1	8.5%
Total corporate loans	112,849.6	100.0%	110,633.0	100.0%

(2) Personal loans

As of December 31, 2017, the Bank's personal loans increased by approximately RMB29,271 million or approximately 65.5% to approximately RMB73,931 million as compared to the end of last year, primarily attributable to the Bank's enhanced innovation of retail products, the successively launched products "Yong Xu Dai (永續貸)" and "Miao Dai (秒貸)" and the increased support for growth of consumption.

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

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Personal residential mortgage loans	39,977.3	54.1%	18,878.3	42.3%
Personal business loans	20,209.0	27.3%	19,460.5	43.6%
Personal consumption loans	13,494.0	18.3%	6,127.2	13.7%
Other personal loans	250.8	0.3%	193.8	0.4%
Total personal loans	73,931.1	100.0%	44,659.8	100.0%

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(3) Discounted bills

As of December 31, 2017, the Bank's discounted bills increased by approximately RMB2,527 million or approximately 26.3% to approximately RMB12,122 million as compared to the end of last year. In 2017, the Bank met clients' financing needs according to our business development requirements.

4.1.2 Investment securities and other financial assets

As of December 31, 2017, the Bank's total investment securities and other financial assets increased by approximately RMB43,928 million or approximately 24.0% to approximately RMB226,924 million as compared to the end of last year, primarily attributable to an increase in our investments in debt securities, trust plans and wealth management plans.

The following table sets forth the distribution of the Bank's investment securities and other financial assets by investment intention as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Held-to-maturity investments	23,735.3	10.5%	17,851.8	9.7%
Available-for-sale financial assets	94,558.8	41.7%	102,258.8	55.9%
Financial assets at fair value through profit or loss for the current period	9,865.8	4.3%	4,207.1	2.3%
Debt securities classified as receivables	98,764.3	43.5%	58,678.3	32.1%
Total investment securities and other financial assets	226,924.2	100.0%	182,996.0	100.0%

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The following table sets forth the distribution of the Bank's investment securities and other financial assets as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt Securities				
Debt securities issued by PRC government	21,314.3	9.4%	19,886.3	10.9%
Debt securities issued by PRC policy banks and other financial institutions	47,327.1	20.8%	45,018.4	24.6%
Debt securities issued by PRC corporate issuers	7,414.5	3.3%	8,935.4	4.9%
Sub-total	76,055.9	33.5%	73,840.1	40.4%
Other financial assets				
Wealth management products issued by other PRC commercial banks	31,471.9	13.9%	34,287.7	18.7%
Asset management plans	21,457.7	9.5%	35,230.1	19.3%
Trust plans	65,923.9	29.1%	27,494.5	15.0%
Others	32,014.8	14.0%	12,143.6	6.6%
Sub-total	150,868.3	66.5%	109,155.9	59.6%
Total investment securities and other financial assets	226,924.2	100.0%	182,996.0	100.0%

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4.1.3 Other components of the Bank's assets

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

As of December 31, 2017, the financial assets held under resale agreements increased by approximately RMB6,415 million or approximately 97.6% to approximately RMB12,989 million as compared to the end of last year, primarily attributable to an increase of short-term high liquid assets including financial assets held under resale agreements to improve liquidity reserve at the end of the Reporting Period.

As of December 31, 2017, the total cash and deposits with the Central Bank increased by approximately RMB14,999 million or approximately 30.4% to approximately RMB64,369 million as compared to the end of last year, primarily attributable to an increase of statutory deposit reserves as a result of deposits from customers.

As of December 31, 2017, the total deposits with banks and other financial institutions decreased by approximately RMB3,907 million or approximately 30.4% to approximately RMB8,924 million as compared to the end of last year, primarily attributable to the moderate control of the amount of deposits with banks to optimize the structure of liquidity reserve at the end of the Reporting Period.

As of December 31, 2017, the total placements with banks and other financial institutions decreased by approximately RMB7,337 million or approximately 84.3% to approximately RMB1,363 million as compared to the end of last year, primarily attributable to the optimization of asset duration to adjust the structure of liquidity reserve at the end of the Reporting Period.

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4.2 Liabilities

As of December 31, 2017, the Bank's total liabilities increased by approximately RMB78,326 million or approximately 19.7% to approximately RMB475,899 million as compared to the end of last year.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Deposits from customers	306,708.3	64.4%	245,352.8	61.7%
Deposits from banks and other financial institutions	39,650.8	8.3%	44,954.8	11.3%
Debt securities issued	74,128.6	15.6%	57,387.8	14.4%
Financial assets sold under repurchase agreements	40,809.8	8.6%	27,580.6	6.9%
Placements from banks and other financial institutions	5,717.1	1.2%	10,400.0	2.6%
Borrowings from Central Bank	1,322.9	0.3%	4,517.0	1.1%
Tax payable	984.9	0.2%	748.8	0.2%
Other liabilities ⁽¹⁾	6,576.8	1.4%	6,631.0	1.8%
Total liabilities	475,899.2	100.0%	397,572.8	100.0%

Note:

- (1) Consist primarily of interest payable, payment and collection clearance accounts, accrued staff costs, other tax payable, dividends payable and other liabilities.

4.2.1 Deposits from customers

As of December 31, 2017, the Bank's total deposits from customers increased by approximately RMB61,356 million or approximately 25.0% to approximately RMB306,708 million as compared to the end of last year, primarily attributable to (1) the Bank's continued efforts to develop its corporate customers, resulting in an increase in its corporate deposits; (ii) initial results of its strategy of "Ruralization of Banking Services" (下鄉), leading to an increase in its rural customer deposits.

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

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	130,505.0	42.5%	96,176.0	39.2%
Time	51,452.0	16.8%	45,656.9	18.6%
Sub-total	181,957.0	59.3%	141,832.9	57.8%
Personal deposits				
Demand	48,420.3	15.8%	32,356.9	13.2%
Time	76,331.0	24.9%	71,163.0	29.0%
Sub-total	124,751.3	40.7%	103,519.9	42.2%
Total deposits from customers	306,708.3	100.0%	245,352.8	100.0%

4.2.2 Deposits from banks and other financial institutions

As of December 31, 2017, the Bank's balance of deposits from banks and other financial institutions decreased by approximately RMB5,304 million or approximately 11.8% to approximately RMB39,651 million as compared to the end of last year, primarily because the Bank improved its liabilities structure and gradually control the amount of deposits from banks and other financial institutions.

4.2.3 Placements from banks and other financial institutions

As of December 31, 2017, the Bank's balance of placements from banks and other financial institutions decreased by approximately RMB4,683 million or approximately 45.0% to approximately RMB5,717 million as compared to the end of last year, primarily because the Bank expanded financing channels and gradually reduced placements from banks and other financial institutions.

4.2.4 Debt securities issued

As of December 31, 2017, the Bank's debt securities issued increased by approximately RMB16,741 million or approximately 29.2% to approximately RMB74,129 million as compared to the end of last year, primarily reflecting the Bank's increased issuance of interbank certificates of deposit so as to expand interbank sources of funds.

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4.2.5 Financial assets sold under repurchase agreements

As of December 31, 2017, the Bank's financial assets sold under repurchase agreements increased by approximately RMB13,229 million or approximately 48.0% to approximately RMB40,810 million as compared to the end of last year, primarily due to the optimization of liabilities structure and moderately change of liabilities duration by the Bank at the end the Reporting Period.

4.3 Shareholders' Equity

As of December 31, 2017, the Bank's total shareholders' equity increased by approximately RMB10,592 million or approximately 29.8% to approximately RMB46,091 million as compared to the end of last year; the total equity attributable to shareholders of the Bank increased by approximately RMB10,550 million or approximately 30.4% to approximately RMB45,269 million as compared to the end of last year. The increase in shareholders' equity was primarily attributable to the issuance of H Shares and an increase in the profits of the Bank in 2017.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Share capital	20,075.0	43.5%	16,625.0	46.8%
Capital reserve	14,474.4	31.4%	10,850.5	30.6%
Surplus reserve	1,258.1	2.7%	877.1	2.5%
General reserve	6,386.3	13.9%	5,134.8	14.5%
Reserve of changes in fair value of available-for-sale securities	(938.9)	(2.0%)	(576.0)	(1.6%)
Retained earnings	4,014.0	8.7%	1,807.9	5.0%
Equity attributable to shareholders of the Bank	45,268.9	98.2%	34,719.3	97.8%
Non-controlling interests	821.7	1.8%	779.3	2.2%
Total shareholders' equity	46,090.6	100.0%	35,498.6	100.0%

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5. OFF-BALANCE SHEET COMMITMENTS

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

	As of December 31, 2017 (in millions of RMB)	As of December 31, 2016
Credit commitments		
Loan commitments	2,710.5	1,688.6
Bank acceptance	30,413.7	33,238.8
Letters of credit	4,448.4	1,205.2
Letters of guarantees	984.2	735.5
Total	38,556.8	36,868.1

As of December 31, 2017, details of the pledge of assets and contingent liability statement of the Bank are set out in Note 47 to the annual financial statements in this annual report.

6. ANALYSIS ON LOAN QUALITY

For 2017, in face of complex economic and financial situation, the Bank further deepened the adjustment of credit structure, continued to strengthen credit risk management, optimized credit procedures and strengthened post-loan management measures to step up the efforts on collection and disposal of non-performing loans, so that the loan risk was generally kept at a manageable level and was continuously improved. As of December 31, 2017, the balance of non-performing loans of the Bank amounted to RMB3,643 million, representing an increase of RMB580 million as compared with the end of last year. The non-performing loan ratio was 1.83%, representing a decrease of 0.03 percentage points as compared with the end of last year; the ratio of loan in special mention category was 4.57%, representing a decrease of 0.23 percentage points as compared with the end of last year.

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6.1 Distribution of Loans by Five-Category Loan Classification

The following table sets forth, as of the dates indicated, the Bank's loans by the Bank's five-category loan classification⁽¹⁾. According to the five-category loan classification system, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Normal	186,169.1	93.60%	153,914.5	93.34%
Special mention	9,091.3	4.57%	7,911.9	4.80%
Substandard	949.2	0.47%	856.5	0.52%
Doubtful	1,448.1	0.73%	1,588.6	0.96%
Loss	1,245.2	0.63%	617.0	0.38%
Total loans and advances to customers	198,902.9	100.00%	164,888.5	100.00%
Non-performing loans and non-performing loan ratio ⁽²⁾	3,642.5	1.83%	3,062.1	1.86%

Notes:

- (1) The core definitions of credit asset classifications in 'Loan Risk Classifications Guiding Principles' are as follows:

Normal: The borrower can fulfil the contracts, and there is insufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.

Special mention: The borrower has the ability to make current payments for the principal and interest, but there may be some issues that could have adverse impacts on the payments.

Substandard: The borrower's repayment ability has been evidently impaired and the borrower's normal income cannot repay the loan principal plus interest in full. Even with execution of guarantees, there may be some loss.

Doubtful: The borrower cannot repay the principal plus the interest in full. Even with the execution of guarantees, there will definitely be a significant loss.

Loss: After taking all possible actions or following all necessary legal procedures, the outcome of recovery for principal and interest is likely to be little or no recovery.

- (2) Non-performing loan ratio is calculated by dividing non-performing loans by total loans and advances to customers.

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

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

	As of December 31, 2017				As of December 31, 2016			
	Amount	% of total	NPL Amount	NPL ratio ⁽⁴⁾	Amount	% of total	NPL Amount	NPL ratio ⁽⁴⁾
			(in millions of RMB, except percentages)					
Corporate loans								
Short-term loans ⁽¹⁾	76,553.7	38.5%	2,107.6	2.75%	87,314.3	53.0%	1,791.4	2.05%
Medium-to-long-term loans ⁽²⁾	36,295.9	18.2%	479.2	1.32%	23,318.7	14.1%	180.0	0.77%
Sub-total	112,849.6	56.7%	2,586.8	2.29%	110,633.0	67.1%	1,971.4	1.78%
Personal loans								
Personal business loans	20,209.0	10.2%	948.2	4.69%	19,460.5	11.9%	907.0	4.66%
Personal residential mortgage loans	39,977.3	20.1%	3.8	0.01%	18,878.3	11.4%	23.6	0.13%
Personal consumption loans	13,494.0	6.8%	102.4	0.76%	6,127.2	3.7%	157.4	2.57%
Others ⁽³⁾	250.8	0.1%	1.3	0.56%	193.8	0.1%	2.7	1.39%
Sub-total	73,931.1	37.2%	1,055.7	1.43%	44,659.8	27.1%	1,090.7	2.44%
Discounted bills	12,122.2	6.1%	—	0.00%	9,595.7	5.8%	—	0.00%
Total	198,902.9	100.0%	3,642.5	1.83%	164,888.5	100.0%	3,062.1	1.86%

Notes:

- (1) Include loans with maturity of one year or less and advances.
- (2) Include loans with maturity of more than one year.
- (3) Include primarily corporate credit cards.
- (4) Calculated by dividing non-performing loans in each product type by gross loans in that product type.

As of December 31 2017, the balance of corporate non-performing loans of the Bank amounted to approximately RMB2,587 million, representing an increase of approximately RMB615 million as compared with the end of last year. The non-performing loan ratio was 2.29%, representing an increase of approximately 0.51 percentage points as compared with the end of last year. The increase in corporate non-performing loans of the Bank was primarily due to the fact that the credit customers of the Bank were mainly small and medium corporate clients. They were affected greatly by the economic downside and the structural reform of the supply side and their operating difficulties deteriorated repayment abilities.

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The balance of personal non-performing loans of the Bank amounted to approximately RMB1,056 million, representing a decrease of approximately RMB35 million as compared with the end of last year. The non-performing loan ratio was 1.43%, representing a decrease of approximately 1.01 percentage points as compared with the end of last year. The personal non-performing loans of the Bank decreased mainly because (i) the Bank proactively responded to national policies by reinforcing credit structure adjustment and further developing personal credit business, as of the end of 2017, the balance of personal loans amounted to approximately RMB73,931 million, representing an increase of approximately RMB29,271 million or approximately 65.5% as compared with the end of last year; and (ii) the Bank continuously increased efforts to reduce non-performing loans and proactively reducing personal non-performing loans.

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6.3 Distribution of Loans and Non-Performing Loans by Industry

	As of December 31, 2017				As of December 31, 2016			
	Loan amount	% of total	NPL Amount	NPL ratio ⁽¹⁾	Loan amount	% of total	NPL Amount	NPL ratio ⁽¹⁾
(in millions of RMB, except percentages)								
Manufacturing	30,642.5	15.4%	1,325.1	4.32%	33,818.4	20.5%	995.8	2.94%
Wholesale and retail	18,984.2	9.5%	561.9	2.96%	21,435.2	13.0%	440.5	2.06%
Leasing and business services	16,556.3	8.3%	40.2	0.24%	5,483.6	3.3%	29.8	0.54%
Real estate	11,424.0	5.7%	334.5	2.93%	9,586.3	5.8%	280.7	2.93%
Construction	8,856.7	4.5%	49.0	0.55%	9,998.5	6.1%	49.5	0.50%
Water, environment and public facilities management	4,615.1	2.3%	6.0	0.13%	4,933.1	3.0%	6.0	0.12%
Agriculture, forestry, animal husbandry and fishery	4,283.4	2.2%	76.7	1.79%	5,461.3	3.3%	27.2	0.50%
Electricity, gas and water production and supply	3,920.1	2.0%	54.9	1.40%	2,991.7	1.8%	—	0.00%
Accommodation and catering	3,223.1	1.6%	80.8	2.51%	2,541.1	1.5%	83.4	3.28%
Mining	2,384.8	1.2%	5.0	0.21%	3,121.7	1.9%	1.3	0.04%
Education	2,270.4	1.1%	19.5	0.86%	2,721.6	1.7%	20.0	0.73%
Transportation, storage and postal services	2,084.7	1.0%	13.5	0.65%	3,424.0	2.1%	35.1	1.03%
Health, social security and social welfare	1,705.0	0.9%	8.0	0.47%	2,393.8	1.5%	—	0.00%
Public administration and social organisations	150.0	0.1%	—	0.00%	1,143.3	0.7%	—	0.00%
Others	1,749.3	0.9%	11.7	0.67%	1,579.4	0.9%	2.1	0.13%
Total corporate loans	112,849.6	56.7%	2,586.8	2.29%	110,633.0	67.1%	1,971.4	1.78%
Total personal loans	73,931.1	37.2%	1,055.7	1.43%	44,659.8	27.1%	1,090.7	2.44%
Discounted bills	12,122.2	6.1%	—	0.00%	9,595.7	5.8%	—	0.00%
Total	198,902.9	100.0%	3,642.5	1.83%	164,888.5	100.0%	3,062.1	1.86%

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Note:

- (1) Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

As of December 31, 2017, the non-performing corporate loans of the Bank mainly concentrated in the manufacturing industry, wholesale and retail industry and real estate industry, with NPL ratio of approximately 4.32%, 2.96% and 2.93%, respectively, of which:

- (i) the balance of non-performing loans in the manufacturing industry increased approximately RMB329 million compared with the end of last year, with an increase of approximately 1.38 percentage points in NPL ratio, which was mainly attributable to the increase of NPL ratio in the industry as a result of production and operation difficulties in the traditional manufacturing industry and a weakened repayment capacity after being affected by the economic downturn.
- (ii) the balance of non-performing loans in the real estate industry increased approximately RMB54 million compared with the end of last year, with a NPL ratio remained stable compared with last year. The increase in non-performing loans was mainly because the construction progress and sales of two clients (real estate developers) were slower than expected, who had many construction projects in progress at the same time and were unable to repay interests on time and thus incurred non-performing loans and resulting a tight project-supporting credit lines of the Bank. As of December 31, 2017, the balance of loans in the real estate industry amounted to approximately RMB11,424 billion, representing an increase of approximately RMB1,838 billion or 19.2% compared with the end of last year;
- (iii) the balance of non-performing loans in the wholesale and retail industry increased approximately RMB121 million compared with the end of last year, with an increase of approximately 0.9 percentage points in NPL ratio, which was mainly attributable to the effect of prolonged trade receivables cycle and slowdown of recollection on the capital turnover, and worsen operating conditions in the wholesale and retail industry after being significantly affected by the slowdown of the PRC economy development.

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6.4 Distribution of Loans and Non-Performing Loans by Collateral

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

	As of December 31, 2017				As of December 31, 2016			
	Loan amount	% of total	NPL Amount	NPL ratio ⁽¹⁾	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Unsecured loans	9,202.4	4.6%	33.3	0.36%	6,671.3	4.1%	55.6	0.83%
Guaranteed loans	74,273.7	37.3%	2,150.9	2.90%	69,115.6	41.9%	1,574.9	2.28%
Collateralised loans	89,632.8	45.1%	1,387.0	1.55%	63,991.5	38.8%	1,357.9	2.12%
Pledged loans	25,794.0	13.0%	71.3	0.28%	25,110.1	15.2%	73.7	0.29%
Total	198,902.9	100.0%	3,642.5	1.83%	164,888.5	100.0%	3,062.1	1.86%

Notes:

- (1) Calculated by dividing non-performing loans in each product type secured by each type of collateral by gross loans in that type of collateral.

As of December 31, 2017, the balance of our guaranteed non-performing loans increased by approximately RMB576 million from the end of last year, representing an increase in non-performing loan ratio of approximately 0.62 percentage points, primarily because (i) borrowers of guaranteed loans are mostly small and medium enterprises which are vulnerable to risks under current economic situations, the decline in their operations resulted in the decrease in performance ability; (ii) the weak guarantee capacity of the guarantors and their failure to repay loans on time contributed to the increase in our guaranteed non-performing loans and non-performing loan ratio.

As of December 31, 2017, the balance of our collateralised non-performing loans increased by approximately RMB 290 million from the end of last year, representing a decrease in non-performing loan ratio of approximately 0.57 percentage points, primarily because (i) with the rapid expansion of loan scale and the relatively high proportion of small enterprises of loan customers of the Bank, some enterprises experienced decline in operations and were exposed to risks under the current economic situation which resulted in an increase in collateralised non-performing loans; (ii) the Bank increased the granting of secured loans. As of December 31, 2017, the balance of our collateralised loans amounted to approximately RMB89,633 million, representing an increase of approximately RMB25,641 million, approximately 40.1% from the end of last year.

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6.5 Borrowers Concentration

As of 31 December, 2017, balance of loans to any single borrower of the Bank did not exceed 10% of the Bank's net capital.

The following table sets forth, as of 31 December, 2017, loan balance of the top ten single borrowers (excluding group borrowers) of the Bank, none of which was classified as non-performing loan.

		As of December 31, 2017		
Borrower	Industry	Balance	% of	% of
		(in millions of RMB, except percentages)	total loans	net capital
Borrower A	Accommodation and catering	1,192.2	0.6%	2.5%
Borrower B	Leasing and commercial services	1,100.0	0.6%	2.3%
Borrower C	Leasing and commercial services	999.9	0.5%	2.1%
Borrower D	Leasing and commercial services	764.0	0.4%	1.6%
Borrower E	Real estate	749.5	0.4%	1.5%
Borrower F	Leasing and commercial services	727.5	0.4%	1.5%
Borrower G	Leasing and commercial services	699.0	0.4%	1.4%
Borrower H	Electricity, heat, gas and water production and supply	680.0	0.3%	1.4%
Borrower I	Water, environment and public facility management	579.0	0.2%	1.2%
Borrower J	Real estate	527.0	0.2%	1.0%
Total		8,018.1	4.0%	16.5%

As of 31 December, 2017, the loan balance of the largest single borrower of the Bank was RMB1,192 million, accounting for 0.6% of the total amount of loans of the Bank, and the total amount of loans of the top ten single borrowers was RMB8,018 million, representing 4.0% of the total amount of loans of the Bank.

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6.6 Overdue loans

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

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loans	188,348.9	94.69%	156,760.8	95.08%
Overdue loans ⁽¹⁾				
– Up to 3 months	2,496.9	1.26%	4,020.0	2.44%
– Over 3 months up to 1 year	4,218.3	2.12%	1,704.9	1.03%
– Over 1 year up to 3 years	3,569.1	1.79%	2,313.0	1.40%
– Over 3 years	269.7	0.14%	89.8	0.05%
Sub-total	10,554.0	5.31%	8,127.7	4.92%
Total loans	198,902.9	100.00%	164,888.5	100.00%

Note:

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

As of 31 December, 2017, the amount of overdue loans totaled approximately RMB10,554 million, representing an increase of approximately RMB2,426 million as compared with the end of last year. Overdue loans accounted for approximately 5.31% of the total loans, representing an increase of approximately 0.39 percentage points as compared with the end of last year.

7. BUSINESS SEGMENT REPORT

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

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	8,380.7	65.4%	7,261.1	61.5%
Retail banking business	3,173.9	24.7%	2,768.0	23.5%
Financial markets business	1,279.9	10.0%	1,563.6	13.2%
Other businesses	(19.0)	(0.1%)	211.0	1.8%
Total operating income	12,815.5	100.0%	11,803.7	100.0%

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8. ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank continued to optimise its business structure and strengthen its capital management. As of December 31, 2017, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were approximately 13.15%, 12.16% and 12.15% respectively, representing an increase of 0.78 percentage points, 0.91 percentage points and 0.91 percentage points respectively, compared to the numbers at the end of the preceding year, which fulfilled the requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBRC for the transition period. The changes in capital adequacy ratio were mainly due to the replenishment of capital resulting from the listing of the Bank in 2017.

In accordance with Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBRC, the capital adequacy ratio of the Bank was as follows:

	As of December 31, 2017 (in millions of RMB, except percentages)	As of December 31, 2016
Share capital	20,075.0	16,625.0
Valid portion of capital reserve	13,535.5	10,274.5
Surplus reserve	1,258.1	877.1
General reserve	6,386.3	5,134.8
Retained earnings	4,014.0	1,807.9
Valid portion of minority interests	301.4	385.6
Total Core tier-one capital	45,570.3	35,104.9
Core tier-one capital deductions	(676.3)	(610.0)
Net core tier-one capital	44,894.0	34,494.9
Other tier-one capital	39.9	39.6
Net tier-one capital	44,933.9	34,534.5
Net tier-two capital	3,635.1	3,432.8
Net capital base	48,569.0	37,967.3
Total risk-weighted assets	369,459.2	307,001.9
Core tier-one capital adequacy ratio	12.15%	11.24%
Tier-one capital adequacy ratio	12.16%	11.25%
Capital adequacy ratio	13.15%	12.37%

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9. BUSINESS REVIEW

9.1 Corporate Banking Business

During the Reporting Period, the Bank's corporate banking business continued to provide efficient, fast, convenient and personalised financial services to customers by adhering to the "customer-oriented" approach, aiming at the development objective of "developing Zhongyuan Bank into a first class commercial bank" and implementing the three key development strategies of "featuring products in traditional business, accomplishing breakthrough in innovative business and taking first-mover advantage in developing future banking (傳統業務做特色, 創新業務找突破, 未來銀行求領先)" to drive sustainable, healthy and rapid development of our corporate banking business.

9.1.1 Corporate deposits

The Bank responded actively to changes in the external environment, such as further market liberalization of interest rate and the rapid development of internet finance, by fully utilizing its own strengths, leveraging on the advantages of traditional cooperation between banks and the government, broadening the sources of low-cost corporate deposits, optimizing the structure of corporate deposits continuously and enhancing the stability of corporate deposits. The Bank continued to improve the competitiveness of its corporate deposit business through the provision of corporate deposits products and services to corporate customers, such as corporate demand deposits, corporate time deposits, corporate call deposits, corporate agreement deposits, negotiated deposits and corporate intelligent deposits.

As of December 31, 2017, the Bank's corporate deposit balance was RMB181,957 million, with an increase of RMB40,124 million compared to the beginning of the year. The Bank ranked second in the industry of Henan in terms of time-point increment of corporate deposits and ranked first among peers in terms of market share increment. The market share increased by 1.14% compared to the beginning of the year, and the deposits grew by 28.3% in terms of time-point increment, representing 18.98 percentage points higher than the average market growth rate.

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9.1.2 Corporate loans

By focusing on the significant opportunities arising from the “six major national strategies” of Henan Province and basing on the economic development reality of Henan Province, the Bank pursued structural reforms on the supply side actively, insisted on returning to original sources and supported the development of the real economy by encouraging and guiding the flow of credit resources to the real economy, and optimizing the credit structure continuously. As of December 31, 2017, the Bank’s corporate loan balance was RMB112,850 million, representing an increase of RMB2,217 million, a 2.0% growth compared to the beginning of the year. While strengthening traditional credit loans, the Bank responded actively to the general tightening trend of credit size and insisted on business innovations. Various forms of support were provided to develop the real economy, and financing support to customers in the province was provided through innovative means, such as bond underwriting, structured financing and industry funds, to strongly promote the rapid and sound economic development of Henan province.

By leveraging on the “three key strategies” and the development layout of “Internet and Rural Banking Services (上網下鄉)”, the Bank insisted on the customer-oriented approach, developed the customer segmentation operating approach, and continued to deepen the cooperation relationship between banks and the government, in order to explore new ways for supporting the small and medium size enterprises (the “SMEs”). During the Reporting Period, the Bank signed strategic cooperation agreements with the people’s governments of Zhengzhou City and Shangqiu City, and realized the complete coverage through strategic cooperation with the people’s governments of 18 administrative cities in Henan Province, while further consolidating the geographical advantages, solidifying the foundation to serve the real economy, creating conditions for financial services in the areas of deep involvement in infrastructure construction, restructuring and upgrading of industries, agricultural modernization, reforms and innovations in rural financial services, and supporting the development of small and micro enterprises in Henan Province.

The Bank participated actively in the construction of major projects in Henan Province and provided integrated financing services. The Bank participated actively in the “Hundred Cities Construction and Quality Improvement Program” (百城建設提質工程) and signed the Strategic Cooperation Agreement on Full Implementation of the Hundred Cities Construction and Quality Improvement Program (全面推進百城建設提質工程戰略合作協議) with the Department of Housing and Urban-Rural Development of Henan Province to fully support the construction of key projects under the Hundred Cities Construction and Quality Improvement Program of Henan Province. During the Reporting Period, 51 key projects under the Hundred Cities Construction and Quality Improvement Program were implemented and the total amount of supportive funds provided was RMB12,730 million.

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9.1.3 Earnings

As of December 31, 2017, the Bank realized operating income of RMB8,381 million from corporate, representing 65.4% in the operating net income of the Bank. Through the provision of traditional services such as settlement and guarantee undertakings and featured services such as advisory consulting, agency business and sales of wealth management products, the Bank realized net intermediary business income of RMB542 million, representing a year-on-year increase of 45.7%.

9.1.4 Investment banking

During the Reporting Period, based on the steady operation of investment banking business such as financial advisory service, consulting, and structured financing, the Bank strongly promoted the transformation from a traditional investment bank to an integrated service investment bank by enriching the investment banking business products and launching innovative products such as debt financing programs and option loans, etc.

Key operation indicators set new records again. Taking roots in supporting the local economic development of Henan Province, the Bank satisfied the financial needs of the real economy and established stable and long-term cooperation relationship with corporate customers in a wide range of industries. As of December 31, 2017, the balance of structured finance offered by the Bank to corporate banking customers amounted to RMB79,261 million, representing an increase of 166.9% compared to the end of 2016.

New highlights appeared in strategic tasks. The Bank, being a financial adviser, participated in the bond financing business of several enterprises in Henan Province by providing comprehensive advisory services including program design, communication with regulatory authorities and sales assistance to help customers address their financing needs. During the Reporting Period, listings of four debt financing programs were completed with a total amount of RMB1,900 million. Meanwhile, the Bank enhanced its comprehensive capabilities of serving customers by continuously obtaining qualifications. On May 8, 2017, the Bank obtained approval of the business qualification for securitization of credit assets from the CBRC Henan Office.

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The government financial advisory business was launched as an innovative service within the province to provide advisory service to various local governments on new urbanized constructions and nurture of industrial planning. The Bank made new breakthroughs in the syndicated loan business through the finalization of two syndicated loans with total amount of RMB2,807 million as the lead bank, including one loan for a PPP project named “Hundred Cities Construction and Quality Improvement Program” (百城建設提質工程) in Henan Province.

The Bank expanded the merger and acquisition (“M&A”) and restructure business actively to satisfy the needs of external growth of domestic and foreign quality enterprises within the province, by providing M&A advisory services and M&A financing integrated solutions with a total amount of RMB3,514 million to leading enterprises within and outside the province. Integrated financing services were also provided to quality listed company clients and the Bank participated in the preferred share investment project of a renowned livestock and poultry breeding enterprise within the province.

The Bank gathered fiscal capital funds within the province to establish the Henan Province Small and Medium Enterprises Development Fund (Limited Partnership) to offer financing support for quality small and medium enterprises with core competitiveness. Featured industrial funds were jointly established with local governments and core leading enterprises to make plans for industries with advantages or potential in Henan. The Bank also focused on technology innovative enterprises within the province, completed three innovative “option loan” projects to provide targeted financing service for small and medium technology innovative enterprises in the growing stage, realized a better match of risk and revenue and enhanced the market competitiveness of innovative business.

9.1.5 Transaction banking

The Bank adhered to its future layout by actively promoting the establishment of the online system for transaction banking and implementation of key businesses. During the Reporting Period, the Bank actively consolidated resources by leveraging on financial technology and the advantages of extensive geographical coverage, developed transaction banking business such as cash management, bills pool, supply chain finance and trade finance, deepened the upstream and downstream cooperation with the core enterprises, expanded the customer base and extended the industrial chain.

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Cash management

The Bank offered cash management financial services to its corporate banking customers. It adopted a designed approach with parameters, components and customization to research on and develop cash management products with high standards. The products completed and launched so far included physical cash pool, virtual cash pool, corporate universal account, corporate intelligent deposits and account alerts. As of December 31, 2017, there were 687 cash management customers, representing a year-on-year increase of 210.86%; the aggregated time-point balance of RMB deposits was RMB25,290 million, representing a year-on-year increase of 80.58%; the average daily balance was RMB22,237 million, representing a year-on-year increase of 98.82%; the total transaction amount of the cash management business reached RMB456,221 million.

The bills pool business of the Bank officially commenced on February 24, 2017. The bills pool business of the Bank assisted enterprises in resolving the issues in the daily settlement of bills, helped corporate customers to reduce the custodian risk of bills, to lower the financing cost and to increase the liquidity of bills assets. Since the commencement of business, the Bank has cooperated with many renowned enterprises within the province. As of the end of the Reporting Period, there were 103 contracted customers with a total financing amount of RMB1,205 million.

Supply chain finance

During the Reporting Period, the Bank actively promoted the transformation of its online supply chain finance business to become online, embedded, specialized-for-channels and conducted through the platform, striving to aggressively develop upstream and downstream customers along the industrial chain to which its core corporate banking customers belong. The Bank also built an industry financial ecosystem based on its efficient online supply chain financial service model. During the Reporting Period, an addition of 320 customers accessed the online supply chain finance system, with an aggregate amount of RMB8,529 million raised, realizing an explosive growth.

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Corporate online banking

The Bank continued to develop new applications for corporate online banking, customize customer experience and improve service capability of the online corporate banking business, effectively diverting and mitigating counter pressures of branches. As of December 31 2017, the aggregated number of the Bank's corporate online banking customers is 84,862, representing an increase of 24,171 customers compared to the number at the beginning of the year. The aggregated transaction amount increased by RMB1,006,227 million compared to the amount at the beginning of the year, and the total transaction volume increased by 5,137,933 transactions compared to the number at the beginning of the year, representing 84.93% of the total number of transactions conducted by corporate banking customers during the same period.

Trade finance

Since 2015, the Bank has actively obtained the relevant business qualifications, comprehensively pursued the construction of systems and solidly carried out business research and development. The trade finance business started from scratch and grew to the rapid development by 2017. During the Reporting Period, the transaction amount of the Bank's trade finance services reached RMB8,317 million, representing an increase of RMB6,313 million compared to 2016; the Bank's aggregated amount of international settlement transactions was US\$1,054 million, representing an increase of US\$963 million compared to 2016. As of December 31 2017, the Bank has established cooperation relationship in trade finance services with 336 corporate banking customers and has established agency relationship with 193 domestic and foreign banks.

In March 2017, the Bank became the exclusive agency bank to offer departure tax refund to overseas tourists in Henan Province, and successfully completed the first departure tax refund to overseas tourists on April 26, 2017.

On November 14, 2017, the Bank signed the strategic cooperation agreement successfully with the Office of China (Henan) Free Trade Pilot Zone in the areas of infrastructure construction, and nurturing and development of industries, to provide more premium and diversified financial services to the construction of the Henan Free Trade Pilot Zone.

9.2 Retail Banking Business

In 2017, the retail banking business implemented the strategy of "Internet and Rural Banking Services (上網下鄉)" consistently and continued to pursue the optimization of offline systems, while focusing efforts on the establishment of an online business system, and initially realizing the online/offline integrated system of comprehensive channel services. The Bank also implemented and promoted the transformation of retail banking to become digitized, specialized-for-channels and featured, which effectively enhanced the comprehensive channel service abilities of the Bank and the satisfaction level of customer experience.

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9.2.1 Internet strategy

In implementing the internet strategy, the Bank focused efforts on building an open financial technology platform to accelerate the layout of mobile internet finance comprehensively by expanding the online channels, building cooperative platforms and launching online products with special features and remarkable competitive strengths. The intelligent mobile banking version 4.0 was launched successfully with highlights on intelligent investment adviser, intelligent customer service and intelligent engines. By leveraging on mobile phone banking, direct marketing banking and community banking on the mobile financial terminals, the Bank completed the online and generation change optimization process. Initial trial operation was carried out for the rural version of mobile phone banking while the framework of the mobile financial platform and channels were basically completed. Also, the retail product online system was basically improved and the channel scenarios and online marketing were also implemented concurrently and effectively. The cloud platform for direct marketing banking, the applications for referral of Zhongyuan customers to marketing and the construction of the retail banking online business system were initially formed. As of December 31, 2017, the aggregate number of mobile phone banking users of the Bank reached 2,543,901, and the electronic banking replacement ratio was 93.30%.

9.2.2 Rural strategy

In implementing the rural strategy, the Bank comprehensively pursued the development of the “three-in-one” system comprising the county sub-branches, rural township sub-branches and farmers-benefiting services to bring the “services, channels and products down to earth”. The Bank also launched “five innovations” of setting new standards for the administration of benefiting farmers, opening new ways of operation and development, forming the new model for county development, adopting new measures for marketing and enriching the rural strategy. During the Reporting Period, the farmers-benefiting business climbed up to a new level; the implementation of the strategy created a new landscape; and the branding of beneficial farmers reached a new height for building a rural finance comprehensive service platform and establishing a rural financial service ecosystem. As of December 31, 2017, the Bank had a total of 1,982 rural payment service points for benefiting farmers and issued 264,000 Farmers-Benefiting Cards, and the service points had coverage over a population of more than 4,000,000 persons.

9.2.3 Business development

During the Reporting Period, the size, quality and benefits of the retail business coordinated in development. Total revenue of the Bank was RMB3,174 million for the full year, representing 247.% of the net operating income of the Bank, and increased by 1.2 percentage points compared to the preceding year.

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9.2.3.1 Retail Deposits

With the overall outstanding performance of innovative businesses during the Reporting Period, the Bank introduced characterized retail banking product system and launched several liability products such as Top Beneficial Savings (鼎惠存) and certificates of deposits, wealth management products such as Interest per Second (秒息寶) and open-end wealth management products, and payment products such as Zhongyuan Wallet (中原錢包), Yuan ePaymnet (原e付) and Community APP (社區APP) to meet diversified customer demands. On the basis of consolidating the market shares of urban retail business, the Bank continuously enhanced the marketing and development capacity, market competitiveness and market share of county sub-branches, and actively deployed township branches and rural service points to make up for market gaps and extend the radius of our bank's offline channel services. The Bank also endeavoured to improve the retail business system, expanded the retail business channels and enhanced user experience to strengthen comprehensive customer service abilities. As of December 31, 2017, the balance of retail deposits amounted to RMB124,751 million, representing an increase of RMB21,231 million, a 20.5% growth. The total amount, increment and market share of retail deposits ranked top among regional urban commercial banks.

9.2.3.2 Retail Loans

During the Reporting Period, the Bank followed its strategy of "Internet and Rural Banking Services (上網下鄉)" for its personal loan business. On one hand, it strengthened efforts to promote its featured online property mortgage product, namely "Yong Xu Dai (永續貸)" across the province, striving to pursue excellence in client experience while vigorously promoting the Bank's first online credit consumer loan, namely "Zhongyuan Miao Dai (中原秒貸)" to fully realize online real-time credit application and repayment. On the other hand, the Bank actively implemented inclusive finance, carried out international cooperation projects with Grameen Limited (格萊珉有限公司) on inclusive finance and targeted poverty alleviation, actively innovated the poverty alleviation model and achieved sustainable inclusive finance to provide more convenient loan services for rural customer groups. As of December 31, 2017, the size of our personal loan business grew rapidly with overall sound asset quality and risks under control. The balance of personal loans amounted to RMB73,931 million, representing an increase of RMB29,271 million, a 65.5% growth compared to the beginning of the year. In particular, during the Reporting Period, the amount granted under Yong Xu Dai (永續貸) was RMB22,500 million, with the balance reaching RMB20,030 million. The default rate of personal loans was 1.43%, representing a decrease of 1.01% compared to the beginning of the year.

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9.2.3.3 Bank Cards

The Bank's debit card business is based on four card categories, i.e. ordinary card, gold card, platinum card and diamond card, complemented by customized cards, such as co-branded cards and featured cards. The online and offline card usage channels for clients were constantly enriched and improved. During the Reporting Period, featured cards including the "Hongqiqu Co-branded Card (紅旗渠聯名卡)" and "Angel Card (天使卡)" were issued. As of December 31, 2017, we had issued a total of 9,669,600 debit cards, representing an increase of 1,637,300 compared to the preceding year.

The Bank's credit card business is divided into two categories, namely personal credit card and corporate credit card. Personal credit card is based on the division of four card grades, i.e. ordinary, gold, platinum and diamond card, and highlighted by co-branded cards such as City Impression Card (城市印象卡) and ETC card. The Bank continued to create online and specialized-for-channels card usage environments, and strived to provide customers with better card usage experience. In the second half of 2017, City Impression Cards (城市印象卡) were issued successively in the cities of Luoyang, Kaifeng, Jiyuan and Sanmenxia and received good response from society. A total of 46,283 new credit cards were issued during the Reporting Period. As of December 31, 2017, the Bank had a total of 48,458 credit cards in issue.

9.3 Financial Market

9.3.1 Bond underwriting and distribution business achieved historical breakthrough

As of December 31, 2017, the total amount of policy financial bonds underwritten and distributed by the Bank was RMB51,887 million. Among those, the total underwritten amount of policy financial bonds of China Development Bank was RMB35,167 million; the total underwritten amount of policy financial bonds of the Agricultural Development Bank of China was RMB13,760 million; and the total underwritten amount of policy financial bonds of the Export-Import Bank of China was RMB2,960 million. The Bank has been a frontrunner in the market ranking lists of underwriters for policy financial bonds. The underwriting team for bonds of China Development Bank ranked 12th and the underwriting team for bonds of Agricultural Development Bank of China ranked 27th in the market. The distribution amount of credit bonds was RMB21,440 million, achieving a historical breakthrough.

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9.3.2 Scope of business expanded and implementation of business innovations continued

During the Reporting Period, the financial market department further developed the local currency market while actively expanding the foreign currency business, gold business and investment advisory business at the same time. The formation of a financial market product system with multi-currency, multi-market and multi-product features has taken an initial shape.

Gold deposits business opened a new line of development for gold business

Gold business achieved a breakthrough after relentless efforts. The Bank's gold deposits business officially commenced online in July 2017 and opened a new line of development for the gold business of the Bank. While the gold deposits business provides services to individual consumers and enriches the personal products of the Bank, it also paves a solid foundation for the commencement of the gold leasing business.

Foreign currency business commenced officially

In October 2017, the Bank commenced the foreign exchange business officially, providing settlement, sales and lending services of foreign exchange. By conducting research and making judgment on the trends in the foreign exchange market, we were able to capture the market pulse closely and the Bank's profit generated from agency services for foreign exchange settlement and sales increased by more than two times. Meanwhile, the Bank increased the number of counterparties, and enhanced the utilization efficiency of foreign currency funds. The funding facilities for market dominant institutions were increased subject to controllable risk, in order to establish a core trading circle in the foreign exchange market for the Bank.

Investment advisory business unveiled intellectual output

During the Reporting Period, the market influence of the Bank's financial market business increased constantly, and the investment research capabilities of the Bank was widely recognized. In October 2017, the Bank entered into a cooperation agreement with rural commercial institutions and provided investment strategy and other services act as investment adviser. This signifies the official output of the Bank's investment research capabilities and turned a new leaf to the output of intellectual services. As such, the financial market development landscape with multi-currency, multi-market and multi-product features has taken its basic shape in 2017.

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9.3.3 Qualification obtainment achieved significant progress

During the Reporting Period, the Bank obtained the qualification of tentative market-maker in the interbank market and at the same time obtained the most important qualifications for bond underwriting, namely the “Qualification for Government Bond Underwriting Syndicates” and the “Qualification for Banking Syndicates Participating in the Operation of Central Treasury Cash Management Through Time Deposits with Commercial Bank in 2018-2020”. Having obtained the qualification of tentative market-maker enabled the Bank to reach a new level in the bond trading and sales business, while having obtained the qualification for government bond underwriting syndicates denoted the comprehensive business coverage of the Bank’s bond business, and laid a solid foundation for the continuous and high-level development of the Bank’s financial market business, which also indicated that the Bank has become a mainstream force in the financial market.

9.3.4 Increasing market influence

During the Reporting Period, the Bank’s whole market ranking in terms of turnover and trading volume in the bond market gradually rose and stayed top within the province. The Bank was continuously rated as an active interbank market dealer during the first to the fourth quarters of 2017 due to its active performance in the spot market. The Bank won two grand awards, namely the “2017 Outstanding Underwriter in the Interbank Market” and “2017 Best Progress Award for Financial Bond Underwriter” at the 2017 financial bond underwriter conference convened by the China Development Bank on December 4, 2017.

9.4 Internet Finance Business

9.4.1 Development of internet finance business

During the Reporting Period, the Bank added 1,262,400 new mobile banking customers with aggregated number of customers reaching 2,543,900. On December 15, 2017, the Bank launched Zhongyuan Bank’s version 4.0 Mobile Banking which focused on the six highlights of “Customer’s New Experience (客戶新體驗), Intelligence (智慧化), Thousand Faces (千人千面), User Growth System (使用者成長體系), Product Scenario-oriented Design (產品場景化設計), and Marketing Functional Design (行銷功能設計)”. Mobile Banking 4.0 already had the gene of mobile Internet at the beginning of its design, with technologies such as big data, cloud computing, augmented reality, face biometrics and fingerprint verification. Its product design included smart investment advisors, smart loans, and AR billing, allowing users to enjoy smart life anytime, anywhere.

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In December 2017, the Bank launched the “featherweight” high-frequency payment APP - Zhongyuan Wallet, which focused on three major highlights “user-oriented, high-frequency micro payment channel embedding, and lower user entry barrier”. In terms of channel cooperation of the wallet APP, Zhongyuan Bank has established strategic cooperation with Mobike (摩拜單車) and Henan Tourism Bureau (河南旅遊局). The wallet APP currently launched online a number of products, such as QR code collection and payment (二維碼收付款), Scan code for Mobike (掃碼騎摩拜), Wealth Management Product Interest by Second (理財產品秒息寶), and Free Tours in Henan Attractions with a Photo (一照在手河南旅遊景點免費暢遊), which enabled the users to realize integrated payment financial services through the Zhongyuan Wallet. For the next step, the wallet APP will also speed up the update and generation change of the products, and launch online channels, such as enjoying food, bus fare recharge and scanning for subway fare, as well as products and services such as micro-loans and micro-credits.

During the Reporting Period, personal internet banking users increased by 156,800, and total number reached 456,400. New fans of WeChat accounts increased by 442,100, and total number reached 1,580,600. WeChat bank affiliated card customers increased by 341,600, and total number reached 700,700.

During the Reporting Period, the number of incoming calls of the customer service centers was 1,413,269, and the number of manual operation calls was 671,213, representing an increase of 57.32% compared to the numbers in 2016. Total number of manual call received was 627,368, with a get-through rate of 93.47% and customer satisfaction level at 99.71%. Meanwhile, the bank actively conducted telephone marketing calls of the new businesses across the bank to constantly improve marketing skills.

During the Reporting Period, the concept of smart customer service center transformation with a focus on “smart voice quality inspection, smart customer service robots, smart voice navigation, and smart knowledge base” was initially determined, and the Bank led the construction of the bank-wide knowledge base system with the hope of gradually realizing bank-wide sharing of knowledge and information.

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9.4.2 Development of direct marketing banking business

2017 marked the first year of inception of the direct marketing banking business of Zhongyuan Bank. The Bank closely focused on the strategy of “taking first-mover advantage in developing future banking (未來銀行求領先)” to carry out team building, system construction, platform construction and focus on the development of the Yong Xu Dai (永續貸) business, striving to build the best financial technology open platform for real estate mortgage loans in China.

As of December 31, 2017, the number of registered users of the direct marketing banking APP was 178,858; the aggregated subscription amount for Interest by Second (秒息寶) was RMB184,955,200; and the amount of penetration was RMB54,677,400. The direct marketing banking focused on scientific research and development in aspects such as the entire online process of Yong Xu Dai (永續貸) business, big data risk control and smart approval and release of loans (智慧審核放款), and initially established a fast and flexible development and management system.

9.5 Subsidiaries Business

9.5.1 County banks business

As of December 31, 2017, the Bank held 51.72% equity interest in Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), 51% equity interest in Linzhou Defeng County Bank Co., Ltd. (林州德豐村鎮銀行股份有限公司), 51% equity interest in Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), 51% equity interest in Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), 43.69% equity interest in Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), 51.02% equity interest in Suiping Hengsheng County Bank Co., Ltd. (遂平恒生村鎮銀行股份有限公司), 51% equity interest in Lushi Defeng County Bank Co., Ltd., 41% equity interest in Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司) and 31.54% in Henan Xinxiang Xinxing County Bank Co., Ltd. (河南新鄉新興村鎮銀行股份有限公司) respectively, the establishment of these companies were promoted by the Bank. Of the Nine County Banks, the Bank formed alliance with three county banks which were not controlled by the Bank through acting-in-concert agreements.

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The Nine County Banks provide local enterprises and retail banking customers with a broad range of financial products and services, including commercial and consumer loans, bill discounting, deposits from customers and fee-based and commission-based products and services, such as settlement services, remittance services and bank card services. We intend to incorporate the Nine County Banks into the Bank's comprehensive service offering channels, to take advantage of their existing local market position and customer base, thereby allowing us to further penetrate our services and enhance the Bank's brand awareness.

The Nine County Banks adhered to their market positioning of serving "agriculture, rural areas and farmers" (三農) and "small and micro enterprises" (小微) and extended credit following the principles of "micro, mobile and disperse" (小額、流動、分散). Their size of assets kept expanding with the structure of deposits and loans approaching rational, along with intensified support to agriculture and small and micro enterprises. As of December 31, 2017, the total assets of the Nine County Banks amounted to RMB9,287 million, representing an increase of RMB1,976 million, or 27.0%, as compared to the beginning of the year. The balance of deposits amounted to RMB7,413 million, representing an increase of RMB2,199 million, or 42.2%, as compared to the beginning of the year. The total loans amounted to RMB6,337 million, representing an increase of RMB1,383 million, or 27.9%, as compared to the beginning of the year. The indicators as mentioned above grew faster than the average rate of county banks in Henan Province.

The Nine County Banks are independent legal entities regulated by the CBRC. The Bank respects the independent operation of the Nine County Banks and strives to maintain their autonomous operation. The Bank believes an autonomous operation business model enables the Nine County Banks to better utilize their local networks and customer relationships, and to tackle changes in their markets more easily.

9.5.2 Consumer finance company business

During the Reporting Period, the Bank initiated the establishment of Consumer Finance Company with a registered capital of RMB500 million and its 65% shareholding was held by the Bank. Consumer Finance Company was officially open to commence operation since December 30, 2016 and its principal businesses included: (1) extending individual consumer loans; (2) taking deposits from domestic subsidiaries of its shareholders and from its domestic shareholders; (3) borrowing from domestic financial institutions; (4) issuing financial bonds upon approval; (5) engaging in domestic interbank lending; (6) engaging in consulting and agency businesses relating to consumer finance; (7) acting as sales agent for insurance products relating to consumer loans; (8) engaging in fixed-income securities investment; and (9) other businesses approved by the CBRC.

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As of December 31, 2017, the aggregated number of loans of Consumer Finance Company exceeded 3.55 million transactions with a total amount of RMB6,915 million, and the loan balance was RMB3,132 million, representing an average amount of RMB1,945 per loan; the aggregated number of servicing customers was 1,282,700 and the Company's total assets were RMB3,307 million, the amount of operating revenue recorded in aggregate was RMB90.40 million. Meanwhile, Consumer Finance Company continued to strengthen the construction of risk system and capacity building, and the quality of assets was good. The annual non-performing loan ratio was 0.22%, which was lower than the average level in the industry. As of December 31, 2017, "Central Plains Consumer Finance" APP has a total of 1,147,600 download users and 834,100 registered users.

10. RISK MANAGEMENT

During the Reporting Period, China's supply-side structural reforms were further implemented continuously, with accelerated switching from old to new driving forces, and the economy shifted from high-speed growth to high-quality development. Meanwhile, financial supervision continued to tighten and fully focused on the bottom line of no occurrence of systematic financial risk. During the Reporting Period, the Bank adhered to a stable risk appetite, further improved the overall risk management system, optimized the credit granting structure, enriched the management tools, prevented and resolved all kinds of potential risks, asset quality continued to remain stable and there was no occurrence of material risk incidents, achieving better result in its risk management.

10.1 Credit Risk

The Bank has implemented whole process management for its credit granting business and has established an effective mechanism for check and balance between different positions, by assigning the responsibility, working standards and due diligence requirements of the various segments of credit granting management, including acceptance of credit application and investigation, risk assessment and review and approval, signing of contracts, issuance and payment of loans as well as post-granting monitoring to specific departments and positions, the corresponding evaluation and accountability mechanisms have been established.

During the Reporting Period, the Bank further improved the system and mechanism to prevent credit risk in a practical manner.

Firstly, the credit risk system was further improved. The Bank formulated or revised over 70 measures on credit approval, risk management, credit management and other aspects successively to drive the change from passive risk prevention and monitoring to active operation on risks.

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Secondly, the centralized system of credit granting made steady progress. According to the regulatory requirements, the Bank followed the principles of “transparent management” and “substance rather than form” to incorporate debt and investment assets and interbank business under centralized management of credit granting to increase the efforts for prevention and monitoring concentration risk.

Thirdly, the credit structure continued to optimize. As industries focused on supply-side restructuring, implementation of macroeconomic policies and industrial policies by the State provided guidance for optimization adjustments in industry structure, the credit balance of industries with oversupply problems fell drastically during the Reporting Period. Differentiation and characterization were the development directions for regions, more credit and loan facilities were made available for key cities such as Zhengzhou and Luoyang as well as key regions such as Henan Free Trade Zone. Customers were managed under the strategic customer list system, and the financing model of “commercial bank + investment bank + transaction bank” was promoted continuously to maximize the penetration on high value customers. We provided support to leading enterprises in the oversupply industries for them to carry out technological and environmental protection reforms, and exited from enterprises which had no market, no prospect, bad management and non-compliance with environmental protection standards.

Fourthly, the establishment of regulated credit management was fully promoted and implemented. When compared with the credit management indicators before the implementation of regulated credit management, the post-lending examination completion ratio, overdue ratio and interest collection ratio improved remarkably.

Fifthly, efforts were focused on enhancing the technological level of credit risk management. The Bank successfully launched the credit risk warning system online comprising 273 corporate warning indicators and 476 retail warning indicators, relying on big data to implement “whole business, whole process, whole cycle” risk management. The building and improvement of the big data retail risk control model and other projects such as anti-fraud model and retail credit risk assessment model were initiated to enhance the scientific and automatic level of approval decisions for the retail credit business.,

Sixthly, asset quality of the Bank remained stable by adhering to the principle of “reducing old and controlling new”. A mechanism for division of work among leaders of the Bank was established by focusing on key banks and key accounts and adhering to the principles of “one bank one strategy, one account one strategy, one account multi-strategy” to resolve high risk credit and non-performing assets actively. Strategies were dependant on enterprises, efforts for reorganization were increased to help enterprises with markets, prospects but encountering temporary operating difficulties to escape from the difficult situation. The percentage for evaluation of “reducing old and controlling new” was increased to assess the effectiveness on quarterly basis, and the accountability procedures were initiated for the persons in charge of sub-branches that failed to meet targets to administer incentives and constraints.

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10.2 Market risk

During the Reporting Period, the Bank continued reinforcing the construction of the market risk management system, improving the full process management of market risk, and promoting the adoption of market risk management tools actively, to further enhance the bank-wide capability to manage market risk.

Firstly, the market risk management consultation project was launched in July 2017. It aimed to establish a market risk management model suitable for the business development of the Bank, and to build a market risk management system and platform with unified measurement and management for various types of market risk indicators, covering all types of relevant business, applicable to future developments and required for risk control to enhance the market risk management capabilities of the Bank.

Secondly, the market risk management system was improved constantly. Market Risk Management Policies of Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司市場風險管理政策) was formulated and implemented, which clarified the responsibilities and division of duties of the Board of Directors, senior management, standardized the basic methods for identification, measurement, monitoring, control and mitigation of market risk management. In the consultation project, a series of systems and proposals on account classification, limit management, risk measurement and stress tests were completed initially.

Thirdly, monitoring, measurement and reporting of market risk were strengthened. Regular monitoring and measurement of indicators such as bond valuation, duration, sensitivity and leverage ratio of trading accounts were carried out to ensure that the authorization and limit of the financial market business were executive effectively. Market risk stress tests were conducted on regular basis to compile various types of market risk reports and to resolve the potential risks timely.

Fourthly, active preparation was made for the establishment of the market risk management system, and the framework of functions of the market risk management system was clarified to accelerate and facilitate the implementation of the market risk management tools.

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10.3 Operational risk

The Bank has established its operational risk management structure which is composed of the senior management, the compliance department, the internal audit department, various business lines (divisions) and branches and sub-branches.

The Bank constantly strengthens its operational risk management through various measures, such as inspecting various business lines and examining staff behaviour, improving institutional systems, conducting educational activities in relation to compliance. Various types of commercial banking business activities were conducted subject to sound control on operational risk by engaging operational risk management closely with the business development process to strengthen the prevention and control of operational risk.

During the Reporting Period, the establishment of the internal control, compliance and operational risk system of the Bank was initially completed. Through digitization and automation on operational risk, internal control and compliance management, an operational risk management system covering all aspects was constructed, and a bank-wide process management and indicator base were gradually established and enhanced concurrently. Through quantitative and qualitative data analysis, the Bank's operational risk refined management capability was further enhanced to ensure the continuity and effectiveness of the internal control, compliance and operational risk management tasks.

10.4 Bank account interest rate risk management

The Bank has established a bank account interest rate risk management system that is compatible with the scale, nature and complexity of the business. Specifically, it includes an effective bank account interest rate risk management and governance structure, complete bank account interest rate risk management strategies, policies and procedures, effective bank account interest rate risk identification, measurement, monitoring and control, and a complete management information system.

The Bank regularly measures the Bank's bank account interest rate risk in various ways including gap analysis, duration analysis, sensitivity analysis, scenario simulation and stress testing, and is promoting the implementation project of the asset and liability management to start as soon as possible in order to further enhance the Bank's bank account interest rate risk management capabilities.

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10.5 Exchange rate risk

Exchange rate risk arises primarily from exchange rate fluctuations, as well as mismatches in the currency denomination of our on- and off-balance sheet assets and liabilities and mismatches in the currency positions of our foreign currency transactions, which may result in a loss of profits and a reduction of value of assets. Exchange rate risks faced by banks mainly include trading risk and conversion risk. Trading risk represents the possibility that banks may suffer losses as a result of a change in exchange rate while using foreign currencies to conduct pricing receipt and payment transactions. Conversion risk represents the possibility that banks may suffer paper losses as a result of a change in exchange rate while converting foreign currencies into the bookkeeping base currency. The Bank seeks to maintain the adverse effects of exchange rate changes within a tolerable range by adopting various measures. The Bank has put together various policies and operational procedures regarding the Bank's foreign exchange businesses, such as foreign exchange settlement, sales and payment and foreign exchange trading, so as to ensure that our risk mitigation measures are effectively implemented. Pursuant to the Bank's standard operational procedures, the Bank checks the position of the respective main foreign currency in the international market on a daily basis and actively monitors key indicators, such as exposure limit. Based on the monitoring, the Bank sets overnight and daily limits for currency exposure.

10.6 Liquidity risk

The Bank has established its liquidity risk management systems which are compatible with its business scale, nature and complexity. Specifically, such systems include the bank-wide organization and systems under coordinated management, the annual liquidity management strategy system, liquidity management institutional system and daily management tool system.

During the Reporting Period, the liquidity risk management awareness and capability of the Bank continued to strengthen with continuous enhancement of fund management levels, continuous enrichment in liquidity management tools and continuous improvement in the monitoring, analysing and reporting systems for liquidity risks. The Bank has established the cash flow estimation and analysis framework to effectively measure, monitor and control cash flow gaps at different time frames in the future in normal and stress scenarios, sufficient consideration was given to the effects of payment, settlement, agency and custodian businesses on cash flows, a total of four liquidity risk stress tests and one emergency drill were conducted. Liquidity risk limits management was strengthened in daily business, and liquidity risk monitoring, alerts, stress tests and reporting were conducted regularly to ensure that the liquidity risk was controllable.

The Bank led five city commercial banks to jointly formulate the Detailed Rules for Liquidity Support and Cooperation among City Commercial Banks in Henan Province (河南省城商行流動性支持合作細則), all member banks contributed funds jointly for the formation of the special supporting fund for liquidity of city commercial banks in Henan Province, which was specialized for use to support the daily liquidity of member banks and was able to reduce the liquidity risk of member banks effectively.

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10.7 Information technology risk

During the Reporting Period, the Bank continued to improve the information technology management system, secured the defense line of information security management, conducted information technology risk assessment work actively, promoted the formation of information system constantly and enhanced the professional support and matching level of information technology to business development.

Firstly, the information security management defense line was secured. Self-examination work was conducted for internet information security and client information protection to facilitate the enhancement in internet information security management and client information protection level. Penetration tests were conducted on internet banking and mobile banking, 25 hazards of medium to high risk were rectified, extra security measures were added to the mobile APP. Information security training sessions and tests were conducted for bank-wide staff to enhance the level of information security awareness of bank-wide staff effectively.

Secondly, the information technology operation, maintenance and management level were enhanced. The Bank has established the disaster recovery applications for 25 sets of key information systems and completed the disaster recovery system for the Bank's three centers and two places. Drills were conducted for switching the core system and full examination was conducted on the genuine business receiving capability of the same-city disaster recovery center.

Thirdly, the information technology risk management institutional system was further improved. The information technology risk management strategy was formulated and implemented, the measures for the management of information technology risk were revised, the assessment mechanism was established, the improvements to identification, measurement, monitoring and control of information technology risk were made to enhance the information technology utilization level and strengthen the protective capability for information assets.

10.8 Reputational risk

The Bank's reputational risk management adheres to the combination of prevention and disposal, and follows the principles of "plan for hazards in peaceful days, take preventive and governance measures on collective basis", "centralized leadership, hierarchical management and control", "respond quickly, tackle problems together" and "perform duties and comply with discipline, investigate accountability" to enhance the capabilities and efficiency of preventing reputational risk and resolving reputational incidents.

During the Reporting Period, the Bank conscientiously conducted reputational risk prevention and control work, optimized the disposal mechanism and enhanced the effectiveness of reputational risk management. Positive publicity efforts were stepped up to enhance brand reputation. Monitoring and alerts on daily public opinions were strengthened, in-depth investigations were conducted on factors for reputational risk, and a daily reporting system for reputational risk information was established to handle

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various types of reputational risk incidents properly. Emergency drills were organized to handle reputational risk, trainings on reputational risk were organized to enhance the awareness of staff on reputational risk and their capabilities to handle reputational risk incidents and to cultivate the reputational risk management culture. During the Reporting Period, there was no occurrence of any material reputational risk incident in the Bank.

11. OUR STRATEGIES AND PROSPECTS

Our vision is to become a leading commercial bank in China. In line with our core value of being “prudent, innovative, enterprising and efficient (穩健、創新、進取、高效)”, we intend to further enhance our risk management and internal control systems, and continue to develop efficient, convenient and innovative financial services that cater to different customers’ needs while keep on expanding the scope of our products and services, so that we can further enhance and promote market recognition of our brand name.

- (1) In line with our strategy of “rooted in Henan with country-wide radiation (深耕河南, 輻射全國)”, we intend to further enhance our leading market position in Henan Province while observing opportunities to expand our business scope.
- (2) Leveraging historical opportunity as a result of multiple favorable policies, such as “Henan Grain Production Core Region (河南糧食生產核心區)”, “Central Plains Economic Zone (中原經濟區)”, “Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合試驗區)” and “China (Henan) Pilot Free Trade Zone (中國(河南)自由貿易試驗區)”, we intend to enhance our leading market position in this region.
- (3) By further enhancing competitiveness of different business arms and taking active measures to improve cost-efficiency and profitability, we intend to build a well-recognized brand name associated with quality products and services.
- (4) We intend to promote our brand as a transaction bank capable of offering comprehensive financial services. We will focus on developing businesses that could effectively integrate with ease into services under corporate banking, investment banking and financial markets business.
- (5) We plan to transform our Bank into a “smart bank (智慧銀行)” where we can rely on advanced technologies, particularly big-data and cloud computing technologies to improve cost-efficiency of our business operations.

In the future, we will continue to adhere to the “Three Major Strategies (三大戰略)” and accelerate the development and layout of “Internetization and Ruralization of Banking Services (上網下鄉)” with “data-based bank (數據銀行)” and “technology bank (科技銀行)” as our direction. At present, the Internet thinking and the continuous development and application of advanced financial technologies are becoming the new driving forces for our sustainable development.

Chapter 6 Changes in Share Capital and Information on Shareholders

1. Changes in Share Capital

Following the issue of 3,000,000,000 H Shares and the conversion of 300,000,000 Domestic Shares into H Shares during the Reporting Period, the H Shares of the Bank were listed on the Main Board of the Hong Kong Stock Exchange on July 19, 2017. In addition, the over-allotment option as set forth in the Prospectus was fully exercised, which involved 495,000,000 H Shares. Following the listing of those H Shares on the Main Board of the Stock Exchange on August 15, 2017, the total issued share capital of the Bank was increased to 20,075,000,000 Shares, including 3,795,000,000 H Shares and 16,280,000,000 Domestic Shares.

2. Information on Shareholders

2.1 Shareholdings of Top 10 Domestic Shareholders of the Bank

No.	Name of Shareholders	Nature of Shareholders	Number of Shares held at the end of the Period (Shares)	Percentage of all Shares in issue of the Bank (%)
1	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	State-owned Legal Person Shares	1,407,285,479	7.01%
2	Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司)	State-owned Legal Person Shares	1,156,751,425	5.76%
3	Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司)	Privately-owned Legal Person Shares	753,000,000	3.75%
4	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Privately-owned Legal Person Shares	568,000,000	2.83%
5	Henan Xingda Investment Co., Ltd. (河南興達投資有限公司)	Privately-owned Legal Person Shares	566,395,712	2.82%
6	Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司)	Privately-owned Legal Person Shares	474,836,916	2.37%
7	Xinxiang City Finance Bureau (新鄉市財政局)	State-owned Shares	337,492,544	1.68%
8	Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司)	Privately-owned Legal Person Shares	327,637,129	1.63%
9	Henan Aike Industrial Development Co., Ltd. (河南省愛克實業發展有限公司)	Privately-owned Legal Person Shares	300,000,000	1.49%
10	Xuchang City Finance Bureau (許昌市財政局)	State-owned Shares	252,020,004	1.26%

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2.2 Interests and Short Positions of Substantial Shareholders in the Shares and Underlying Shares

As of December 31, 2017, so far as is known to the Bank and the Directors, substantial shareholders of the Bank and other persons (other than Directors, Supervisors and chief executive officers of the Bank) who had interests and short positions in the Shares and underlying Shares of the Bank which were required to be notified to the Bank or the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Shareholder	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽²⁾
Henan Investment Group Co., Ltd. (河南投資集團有限公司) ⁽³⁾	Domestic Shares	Beneficial owner	1,407,285,479 (L)	8.64	7.01
Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) ⁽⁴⁾	Domestic Shares	Beneficial owner	1,156,751,425(L)	7.11	5.76
	Domestic Shares	Interest in controlled corporation	54,695,401(L)	0.34	0.27
Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) ⁽⁵⁾	Domestic Shares	Interest in controlled corporation	1,299,627,447 (L)	7.98	6.48
China Create Capital Limited	H Shares	Beneficial owner	342,682,000(L)	9.03	1.71
Geoswift International Limited ⁽⁶⁾	H Shares	Beneficial owner	315,500,000(L)	8.31	1.57
QU Xiaochuan (瞿曉川) ⁽⁶⁾	H Shares	Interest in controlled corporation	315,500,000(L)	8.31	1.57
CMB International Finance Limited ⁽⁷⁾	H Shares	Held Security Interest in Shares	214,168,000(L)	5.64	1.07
China Merchants Bank Co., Ltd. ⁽⁷⁾	H Shares	Interest in controlled corporation	214,168,000(L)	5.64	1.07
Zhong Sheng Capital (Hongkong) Co., Limited	H Shares	Beneficial owner	214,168,000(L)	5.64	1.07
TIAN KUN INVESTMENT LIMITED ⁽⁸⁾	H Shares	Beneficial owner	726,000,000(L)	19.13	3.62
YINGCHUANG INTERNATIONAL INVESTMENT LIMITED ⁽⁸⁾	H Shares	Interest in controlled corporation	726,000,000(L)	19.13	3.62
Zhongchuang Investment (Holdings) Limited ⁽⁸⁾	H Shares	Interest in controlled corporation	726,000,000(L)	19.13	3.62
Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司) ⁽⁸⁾	H Shares	Interest in controlled corporation	726,000,000(L)	19.13	3.62

Chapter 6 Changes in Share Capital and Information on Shareholders

Name of Shareholder	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽²⁾
China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司) ⁽⁸⁾	H Shares	Interest in controlled corporation	726,000,000(L)	19.13	3.62
China Minsheng Investment Group (中國民生投資股份有限公司) ⁽⁸⁾	H Shares	Interest in controlled corporation	726,000,000(L)	19.13	3.62
Shanghai Huaxin Group (HongKong) Limited (上海華信集團 (香港) 有限公司)	H Shares	Beneficial owner	573,964,000(L)	15.12	2.86

Note:

- (L) represents the long position, (S) represents short position.
- As of December 31, 2017, the number of total issued Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
- Henan Investment Group Co., Ltd. (河南投資集團有限公司) is wholly-owned by the Henan Provincial Development and Reform Commission (河南省發展和改革委員會).
- Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) directly holds 1,156,751,425 Domestic Shares of the Bank (long positions) and indirectly holds 54,695,401 Domestic Shares of the Bank (long positions) through its controlled corporations, including 23,146,265 Domestic Shares of the Bank (long positions) directly held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), 9,961,851 Domestic Shares of the Bank (long positions) indirectly held by Yongcheng Coal and Electricity Group (Kaifeng) Tower Investment Co., Ltd. (永城煤電集團 (開封) 鐵塔投資有限公司) through Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠 (集團) 有限公司) and 21,587,285 Domestic Shares of the Bank (long positions) directly held by Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司), respectively. Therefore, by virtue of the SFO, Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠 (集團) 有限公司) and Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司).

Chapter 6 Changes in Share Capital and Information on Shareholders

5. Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is wholly-owned by the State-owned Assets Supervision and Administration Commission of Henan Provincial People's Government (河南省人民政府國有資產監督管理委員會). Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) indirectly holds 1,299,627,447 Domestic Shares of the Bank (long positions) through its controlled corporations, including 1,211,446,826 Domestic Shares of the Bank (long positions) directly and indirectly held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), 23,548,264 Domestic Shares of the Bank (long positions) directly held by Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), 15,621,486 Domestic Shares of the Bank (long positions) directly held by Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and 49,010,871 Domestic Shares of the Bank (long positions) indirectly held by Henan Energy and Chemical Construction Group Co., Ltd. (河南能源化工建設集團有限公司) through its controlled corporation, namely Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司), respectively. Therefore, by virtue of the SFO, Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司).
6. Geoswift International Limited is 100% owned by QU Xiaochuan (瞿曉川).
7. China Merchants Bank Co., Ltd., through its controlled corporations, namely CMB International Capital Holdings Corporation Limited and CMB International Capital Corporation Limited, is indirectly interested in 214,168,000 H Shares of the Bank (long positions) held by CMB International Finance Limited in the capacity of a person having a security interest in shares. Therefore, by virtue of the SFO, China Merchants Bank Co., Ltd., CMB International Capital Holdings Corporation Limited and CMB International Capital Corporation Limited are deemed to be interested in the H Shares of the Bank (long positions) held by CMB International Finance Limited in the capacity of a person having a security interest in shares.
8. China Minsheng Investment Group (中國民生投資股份有限公司), through its controlled corporations, namely China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED, is indirectly interested in 726,000,000 H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED. Therefore, by virtue of the SFO, each of China Minsheng Investment Group (中國民生投資股份有限公司), China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED is deemed to be interested in the H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED.

Chapter 6 Changes in Share Capital and Information on Shareholders

Save as disclosed above, none of the substantial Shareholders or other persons had, as of December 31, 2017, any interests or short positions in the Shares or underlying Shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO.

2.3 Shareholders with an Interest in 5% or More of the Share Capital of the Bank

Please refer to “—2.2 Interests and Short Positions of Substantial Shareholders in the Shares and Underlying Shares” in this chapter.

2.4 Purchase, Sale or Redemption of Listed Securities

The Bank and its subsidiaries did not purchase, sell or redeem any listed securities of the Bank for the twelve months ended December 31, 2017.

Chapter 7 Directors, Supervisors, Senior Management and Employees

1 Current Directors, Supervisors and Senior Management

1.1. Directors

Name	Gender	Month and year of birth	Positions	Terms of Office
DOU Rongxing (竇榮興)	Male	March 1963	Executive Director, chairperson of the Board	From March 16 2018 to the expiration of the second session of the Board
Wei Jie ⁽¹⁾ (魏傑)	Male	August 1963	Executive Director, vice chairperson of the Board	From the approval date of appointment by banking regulatory authorities in the PRC to the expiration of the second session of the Board
WANG Jiong (王炯)	Male	June 1968	Executive Director, president	From March 16 2018 to the expiration of the second session of the Board
LI Yulin ⁽¹⁾ (李玉林)	Male	March 1966	Executive Director, executive vice president	From the approval date of appointment by banking regulatory authorities in the PRC to the expiration of the second session of the Board
LI Qiaocheng (李喬成)	Male	January 1963	Non-executive director	From March 16 2018 to the expiration of the second session of the Board
LI Xipeng (李喜朋)	Male	November 1963	Non-executive director	From March 16 2018 to the expiration of the second session of the Board
MI Hongjun ⁽¹⁾ (弭洪軍)	Male	February 1971	Non-executive director	From the approval date of appointment by banking regulatory authorities in the PRC to the expiration of the second session of the Board
LI Hongchang (李鴻昌)	Male	December 1948	Independent non-executive director	From March 16 2018 to the expiration of the second session of the Board
PANG Hong (龐紅)	Female	April 1955	Independent non-executive director	From March 16 2018 to the expiration of the second session of the Board
JIA Tingyu (賈廷玉)	Male	August 1942	Independent non-executive director	From March 16 2018 to the expiration of the second session of the Board
CHAN Ngai Sang Kenny (陳毅生)	Male	November 1964	Independent non-executive director	From March 16 2018 to the expiration of the second session of the Board

Note:

- (1) The qualifications of Wei Jie (魏傑), LI Yulin(李玉林) and MI Hongjun(弭洪軍) as directors are subject to approval of relevant banking regulatory authorities in the PRC.

Chapter 7 Directors, Supervisors, Senior Management and Employees

1.2 Supervisors

Name	Gender	Month and year of birth	Positions	Terms of Office
HAO Jingtao (郝驚濤)	Male	June 1971	Employee representative Supervisor	From March 6, 2018 to the expiration of the second session of the Board of Supervisors
JIA Jihong (賈繼紅)	Female	September 1963	Employee representative Supervisor	From March 6, 2018 to the expiration of the second session of the Board of Supervisors
ZHANG Yixian (張義先)	Male	October 1967	Employee representative Supervisor	From March 6, 2018 to the expiration of the second session of the Board of Supervisors
ZHAO Ming (趙明)	Male	November 1958	Shareholder representative Supervisor	From March 16, 2018 to the expiration of the second session of the Board of Supervisors
LI Weizhen (李偉真)	Female	June 1965	Shareholder representative Supervisor	From March 16, 2018 to the expiration of the second session of the Board of Supervisors
LI Wan Bin (李萬斌)	Male	December 1971	Shareholder representative Supervisor	From March 16, 2018 to the expiration of the second session of the Board of Supervisors
LI Xiaojian (李小建)	Male	August 1954	External Supervisor	From March 16, 2018 to the expiration of the second session of the Board of Supervisors
HAN Wanghong (韓旺紅)	Male	March 1954	External Supervisor	From March 16, 2018 to the expiration of the second session of the Board of Supervisors
SUN Xuemin (孫學敏)	Male	April 1963	External Supervisor	From March 16, 2018 to the expiration of the second session of the Board of Supervisors

Chapter 7 Directors, Supervisors, Senior Management and Employees

1.3 Senior Management

Name	Gender	Month and year of birth	Positions	Date of appointment/ proposed appointment
WANG Jiong (王炯)	Male	June 1968	President	March 2018
LI Yulin (李玉林)	Male	March 1966	Executive vice president	March 2018
LIU Kai (劉凱)	Male	March 1971	Vice president	March 2018
ZHAO Weihua ⁽¹⁾ (趙衛華)	Male	March 1977	Vice president, chief risk officer	March 2018
ZHOU Litao ⁽¹⁾ (周麗濤)	Male	November 1979	Vice president	March 2018
LIU Qingfen ⁽¹⁾ (劉清奮)	Male	March 1970	Assistant to the president	March 2018
YI Haiqing ⁽¹⁾ (儀海清)	Male	October 1975	Assistant to the president	March 2018
YAO Hongbo ⁽¹⁾ (姚紅波)	Male	April 1969	Assistant to the president	March 2018
ZHANG Ke (張克)	Male	October 1977	Secretary to the Board	March 2018
ZHANG Yi (張怡)	Female	March 1973	General manager of the planning and financing department	September 2015
ZHANG Yixian (張義生)	Male	October 1967	General manager of the audit department	December 2017

Note:

- (1) The qualifications of Mr. ZHAO Weihua(趙衛華), Mr. ZHOU Litao(周麗濤), LIU Qingfen(劉清奮), Mr. YI Haiqing(儀海清) and Mr. YAO Hongbo(姚紅波) as senior management members are subject to approval of relevant banking regulatory authorities in the PRC.

Chapter 7 Directors, Supervisors, Senior Management and Employees

2. Changes of the Directors, Supervisors and Senior Management during the Reporting Period

1. Changes of the Directors

On November 28, 2016, LI Qiaocheng(李喬成) was elected as an executive director of the Zhongyuan Bank at the 2016 first extraordinary general meeting of the Bank. On March 22, 2017, CBRC Henan Office approved the qualification of Mr. LI Qiaocheng as a Director. On April 6, 2017, CHEN Yisheng(陳毅生) was elected as an independent non-executive director of the Bank at the 2016 annual general meeting of the Bank. On May 15, 2017, CBRC Henan Office approved the qualification of Mr. CHAN Ngai Sang Kenny as a Director.

On December 26, 2017, Mr. ZHANG Bin resigned as an executive director of the Bank, vice president and chief information officer, as well as the member of Strategy and Development Committee of the Board of Directors, Risk Committee, Executive Committee. Please refer to the announcement dated December 26, 2017 of the Bank for details.

On January 20, 2018, Mr. HAO Jingtao (郝驚濤) resigned as an executive Director, the executive vice president, and a member of the Strategy and Development Committee, the Related Party Transactions Control Committee, the Risk Management Committee and the Executive Committee of the Bank. Please refer to the announcement dated January 21, 2018 of the Bank for details.

The second session of the Board of the Bank has been elected at the 2018 first extraordinary general meeting of the Bank held on March 16, 2018 with Mr. DOU Rongxing, Mr. WEI Jie, Mr. WANG Jiong and Mr. LI Yulin as executive Directors, Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun as non-executive Directors, and Mr. LI Hongchang, Ms. PANG Hong, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive Directors. Meanwhile, the Board elected Mr. DOU Rongxing as the chairman, and Mr. WEI Jie as the vice chairman of the second session of the Board. The appointment of Mr. WEI Jie, Mr. LI Yulin and Mr. MI Hongjun as directors are subject to the approval by the relevant banking regulatory authorities in the PRC. Please refer to the announcements dated January 20, 2018 and March 16, 2018 of the Bank for details and the circular dated February 22, 2018.

Chapter 7 Directors, Supervisors, Senior Management and Employees

2. Changes to Supervisors

On February 13, 2017, Mr. QIN Jianhua resigned as a Supervisor and vice chairperson of the Board of Supervisors of the Bank due to his retirement.

On March 20, 2017, Ms. JIA Jihong was elected as the employee representative Supervisor of the Bank in the second meeting of the first session of the employee representatives general meeting of the Bank. On April 6, 2017, Board of Supervisors of the Bank elected Ms. JIA Jihong as the vice chairperson of the first session of the Board of Supervisors.

The shareholder representative supervisor and external supervisor of the second session of the Board of Supervisors of the Bank has been elected at the 2018 first extraordinary general meeting of the Bank held on March 16, 2018 with Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin as Shareholder representative Supervisors and Mr. LI Xiaojian, Mr. HAN Wanghong and Mr. SUN Xuemin as external Supervisors. Please refer to the announcements dated January 20, 2018 and March 16, 2018 of the Bank for details.

The employee representative supervisors of the second session of the Board of Supervisors have been elected in a democratic manner at the employee representative meeting convened on 6 March 2018. Employee representative supervisors are Mr. Hao Jingtao, Ms. Jia Jihong and Mr. Zhang Yixian. Please refer to the announcement dated 6 March 2018 of the Bank for details.

Mr. MA Guoliang, due to his retirement and Mr. SI Qun, due to his work arrangement, (both as employee representative Supervisors of the first session of the Board of Supervisors of the Bank) have retired as employee representative Supervisors and members of the Supervision committee and the Nomination Committee under the Board of Supervisors with effect from March 16, 2018. Mr. MA Guoliang has also retired as the Chairman of Board of Supervisors with effect from March 16, 2018. Please refer to the announcement dated 16 March 2018 of the Bank for details.

3. Changes to Senior Management

On August 29, 2017, Mr. ZHANG Yixian was appointed as the general manager of the audit department at the 19th meeting of the first session of the Board of the Bank. The appointment took effect on November 30, 2017 upon approval from CBRC Henan Office to succeed Mr. FU Fei as the general manager of the audit department.

On December 26, 2017, Mr. ZHANG Bin resigned as an executive Director, vice president and chief information officer of the Bank. Please refer to the announcement dated December 26, 2017 of the Bank for details.

On January 20, 2018, Mr. HAO Jingtao resigned as an executive Director, the executive vice president, and a member of the Strategy and Development Committee, the Related Party Transactions Control Committee, the Risk Management Committee and the Executive Committee of the Bank. Please refer to the announcement dated January 21, 2018 of the Bank for details.

The Board of the Bank appointed Mr. WANG Jiong as the president of the Bank on March 16, 2018 until the date of election of the second session of the Board.

Save as disclosed above and in the relevant announcements, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules. Meanwhile, there is no change to any information related to Directors, Supervisors and chief executive required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Chapter 7 Directors, Supervisors, Senior Management and Employees

3. Biography of Directors, Supervisors and senior management

1. Directors

Mr. DOU Rongxing (竇榮興), born in March 1963, Chinese. Mr. DOU Rongxing is an executive Director and the chairperson of the second session of the Board of the Bank, primarily responsible for the overall management, strategic planning and business development of the Bank. Mr. Dou has over 30 years of experience in banking business management. In addition to his role as the chairperson of the Board, Mr. Dou is also the secretary to the party committee of the Bank. Mr. Dou's primary work experience prior to joining the Bank includes: serving as the deputy chief (director-of-bureau level) and a member of the party group of the Office of Financial Service of Henan Government (河南省政府金融服務辦公室) from December 2013 to December 2014, during which period he also served as the executive director of the Leading Group Office of the Reform and Reorganization of Certain City Commercial Banks in Henan Province (河南省部分城市商業銀行改革重組工作); the director of the wholesales business and the general manager of the corporate banking department of China CITIC Bank from June 2013 to December 2013; the secretary to the party committee and the president of the Zhengzhou Branch of China CITIC Bank from January 2005 to June 2013. He worked as the vice president of the Zhengzhou Branch of China Merchants Bank from September 2002 to January 2005. Mr. Dou held several positions successively at the Henan Branch of the China Construction Bank from July 1985 to August 2002, including: an officer, the deputy chief of the investment research institution; the deputy chief of funds planning department, the deputy general manager of finance department, the deputy chief and the chief of the inspection and audit department, the chief of the planning and finance department, the secretary to the party committee and the president of the Xinxiang Branch, the chief of asset preservation department and the president of the Jinyuan Sub-branch. Mr. Dou was recognized as the "Annual Henan Economic Leading Person (河南省年度經濟人物)" jointly by the Henan Province Development and Reform Commission (河南省發展和改革委員會) and other nine governmental departments in January 2016, and was rewarded the "Innovation Award of National Economic Leading Persons for the year of 2017" (2017年經濟人物新銳獎) jointly by People's Daily (App) (人民日報(客戶端)) and other two media platforms in January 2018. Mr. Dou is a member of the 13th National Committee of the Chinese People's Political Consultative Conference. Mr. Dou received a bachelor's degree in infrastructure finance and credit from Hubei College of Finance (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1985, a master's degree in investment finance from Zhongnan University of Finance (中南財經大學) (currently known as Zhongnan University of Economics and Law) in June 1995 and a doctor's degree in management science and engineering from Huazhong University of Science and Technology (華中科技大學) in December 2005. Mr. Dou is a senior economist accredited by China Construction Bank in December 1997.

Chapter 7 Directors, Supervisors, Senior Management and Employees

Mr. WEI Jie (魏傑), born in August 1963, Chinese, is an executive director and vice-chairman of the Second Session of the Board of Directors of the Bank. Mr. WEI Jie's primary work experience prior to joining the Bank includes serving as the chairperson and the secretary to the party committee of Shangqiu Bank from December 2009 to December 2014, the chief, the deputy secretary and the secretary to the party committee, and the director and the general manager of Shangqiu City Credit Union Co., Ltd. from January 2003 to December 2009. Mr. Wei held several Positions successively at the Shangqiu Branch of China Construction Bank from April 1992 to December 2002, including the deputy chief of facility department, the vice president, the president and the secretary to the party group of the Yongxia Mine District Sub-branch, and the president, the secretary to the party group and the secretary to the party general branch of the Liangyuan Sub-branch. He served as the chief of the construction economics section of the former Shangqiu Sub-branch of China Construction Bank from February 1987 to April 1992, and the member of the construction section and the deputy secretary to the communist youth league of the former Shangqiu District Central District of China Construction Bank from August 1983 to February 1987. Mr. WEI Jie received a technical secondary school diploma from School of Finance and Trade of Kaifeng (開封市財貿學校) in July 1983. Mr. WEI Jie completed college education in fundamental construction economics at the Correspondence College of Remin University of China in June 1988 and completed undergraduate education in finance and investment at Henan University in July 1995.

Chapter 7 Directors, Supervisors, Senior Management and Employees

Mr. WANG Jiong (王炯), born in June 1968, Chinese. Mr. WANG Jiong is an executive Director and the president of the second session of the Board of the Bank, primarily responsible for the daily operation and management and in charge of the strategic development department and the planning and financing department of the Bank. Mr. Wang has more than 20 years of experience in banking business operations and management. Mr. Wang served as the secretary to the party committee and the president of the Haikou Branch of China CITIC Bank from May 2012 to December 2014, and was in charge of the planning group of the Haikou Branch of China CITIC Bank from November 2011 to May 2012. Prior to that, he successively held several positions in the Zhengzhou Branch of China CITIC Bank from March 2001 to November 2011, including the deputy general manager and the general manager of the planning and financing department, the assistant to the president, and the vice president. Mr. Wang's work experience also includes serving as the deputy manager, the manager, and the assistant to the general manager of the business department, the assistant to the general manager and the deputy general manager of the financial accounting department of the Zhengzhou Branch of China Guangfa Bank from December 1995 to March 2001. Before that, he worked at the Zhengzhou Railway Branch of China Construction Bank from August 1993 to November 1995 and at the human resources department of Zhengzhou College of Industry (鄭州工學院) from July 1990 and August 1993. Mr. Wang is a deputy of the 13th National People's Congress of Henan Province. Mr. Wang was recognized as the "Annual Henan Economic Leading Person" jointly by the Henan Province Development and Reform Commission and other nine governmental departments in February 2017. Mr. Wang received a bachelor's degree in applied physics from Wuhan University (武漢大學) in July 1990, a secondary bachelor's degree in ideological and political education from Xi'an Jiaotong University (西安交通大學) in July 1994, and a doctor's degree in economics from Zhongnan University of Economics and Law in June 2009. Mr. Wang is a senior accountant accredited by the Review Committee of Senior Professional and Technical Positions of Accounting Professions of Henan Province (河南省會計系列高級專業技術職務評委會) in April 2000.

Chapter 7 Directors, Supervisors, Senior Management and Employees

Mr. LI Yulin (李玉林), born in March 1966, Chinese. Mr. Li Yulin is an executive director and executive vice-president of the Second Session of the Board of Directors of the Bank, and has served as the chairman of the board of directors of Henan ZhongYuan Consumer Finance Corp., Ltd. (河南中原消費金融股份有限公司), a subsidiary of the Bank, since December 2016. Prior to joining the Bank, Mr. LI's primary work experience includes: He served as the vice president of the Changsha Branch of China Merchants Bank (招商銀行長沙分行) from March 2016 to May 2016. Mr. Li held various positions successively in the Zhengzhou Branch of China Merchants Bank (招商銀行鄭州分行) from August 2002 to February 2016, including the assistant to the office chief, the vice general manager of the business department, the vice general manager of the planning group of the Sub-branch II, the president of the Huayuan Road Sub-branch (花園路支行), the general manager of the corporate banking department I, assistant to the president, the assistant to the president and the president of the Luoyang Branch (洛陽分行), the member of party committee and the vice president. He served as the vice president of the Huayuan Road Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行河南省分行花園路支行) from March 2000 to August 2002. Prior to that, Mr. Li served successively as an accountant, a facility reviewer, the office chief and the vice president of the Railway Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行河南省分行鐵路支行) from July 1989 to February 2000. Mr. Li completed his undergraduate education in finance at Zhengzhou University (鄭州大學) in June 1989.

Chapter 7 Directors, Supervisors, Senior Management and Employees

Mr. LI Qiaocheng (李喬成), born in January 1963, Chinese. Mr. Li Qiaocheng is currently a non-executive Director of the second session of the Board of the Bank. Mr. Li has been the deputy general accountant and a director of Henan Energy and Chemical Engineering Group Co., Ltd. (河南能源化工集團有限公司) since April 2016 and May 2016, respectively. Prior to that, Mr. Li's primary work experience includes serving as: a member of the standing party committee, the director, the vice general manager of Henan Energy and Chemical Engineering Group Hemei Investment Co., Ltd. (河南能源化工集團鶴煤投資有限公司) and a researcher at the vice general manager level of Hebi Coal (Group) Co., Ltd. (鶴壁煤業(集團)有限責任公司) successively from November 2012 to April 2016, the deputy general accountant, the chief of the finance department and the general accountant of Jiaozuo Coal (Group) Co., Ltd. (焦作煤業(集團)有限責任公司) from May 2009 to November 2012, the director of finance of Yongcheng Coal and Electricity Group Co., Ltd. (永城煤電集團有限責任公司) and Yongmei Group Co., Ltd. (永煤集團股份有限公司) successively from May 2007 to May 2009, the vice general manager and the director of finance of Henan Zhenglong Coal Co., Ltd. (河南正龍煤業有限公司) successively from December 2003 to May 2007. Prior to that, Mr. Li worked at Beilutian Mine of Yima Mining Bureau (義馬礦務局北露天礦) from December 1982 to January 1994. In addition, Mr. Li worked as an accountant at the Yima Mining Bureau Middle School (義馬礦務局中學) from August 1981 to November 1982. Mr. Li received a technical secondary school diploma in finance and accounting from Zhengzhou Coal Technical School (鄭州煤炭工業學校) in July 1981 and a college diploma in corporate operation management from Henan Radio and Television University (河南廣播電視大學) in July 1986. He is a senior accountant accredited by Henan Government in September 2012.

Mr. LI Xipeng (李喜朋), born in November 1963, Chinese. Mr. Li Xipeng is currently a non-executive Director of the second session of the Board of the Bank. Mr. Li has been the chairman of the board of directors of Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司) (formerly known as Henan Shengrun Venture Capital Management Co., Ltd. (河南盛潤創業投資管理有限公司)) ("Henan Shengrun Group") since October 2001, a director of Zhongyuan Trust Company Limited (中原信託股份有限公司) since January 2012 and a director of Fanxian Rural Commercial Bank Co., Ltd. ("Fanxian Rural Commercial Bank") since January 2017. Mr. Li received a Master of Business Administration degree for senior management from Cheung Kong Graduate School of Business (長江商學院) in March 2006.

Chapter 7 Directors, Supervisors, Senior Management and Employees

Mr. Mi Hongjun (弭洪軍), born in February 1971, Chinese. Mr. Mi Hongjun is currently a non-executive director of the second session of the Board of the Bank. Mr. Mi is the director of finance of China Minsheng Investment Group (中國民生投資股份有限公司) and has served successively as the chairman of the board of directors, chairman of the nomination committee and an executive director of China Minsheng Drawin Technology Group Limited (中民築友科技集團有限公司) (HK:726) since July 2015. Mr. Mi's primary work experience includes serving as a director of Yango Group Co., Ltd. (陽光城集團股份有限公司) (SH: 000671) from July 2016 to June 2017, the director of China Minsheng Investment Group Futurelife Co., Ltd. (中民未來有限責任公司) from January 2016 to October 2017, the director of finance and secretary to the board of directors of Minsheng Royal Fund Management Co., Ltd. (民生加銀基金管理有限公司) from February 2012 to June 2014, the chief financial officer and the chief executive officer of Digital Diligent Knowledge (Beijing) Information and Technology Co., Ltd. (數字博識(北京)信息技術有限公司) from February 2009 to December 2011, the chief financial officer of Beijing Hinge Software Co., Ltd (北京和勤軟件技術有限公司) from September 2007 to January 2009, the director of finance of Dayang Technology Development Inc. (中科大洋科技發展股份有限公司) from March 2004 to August 2007, and the director of finance of Ec-Founder Company Limited (方正數碼有限公司) from March 2001 to February 2004. Mr. Mi obtained an Executive Master of Business Administration degree from Tsinghua University (清華大學) in 2012 and was accredited as a senior accountant by the Review Committee of Senior Professional and Technical Qualifications of Beijing (北京市高級專業技術資格評審委員會) in January 2005.

Mr. Li Hongchang (李鴻昌), born in December 1948, Chinese. Mr. Li Hongchang is an independent non-executive Director of the second session of the Board of the Bank, primarily responsible for supervising and providing independent advice on the operation and management of the Bank. Mr. Li has served as a professor and the dean of Zhengzhou College of Finance (鄭州財經學院) since September 2013. Prior to that, Mr. Li served as a professor at Henan University of Economics and Law (河南財經政法大學) from December 2008 to December 2011. In addition, Mr. Li successively held several positions at Henan College of Finance (河南財經學院) (currently known as Henan University of Economics and Law) from July 1985 to December 2008, including the vice chief and the chief of the finance department, the assistant to the dean, the vice dean and the dean researcher. Mr. Li received a master's degree in economics from Zhongnan University of Finance in November 1985. Mr. Li is a professor in economics accredited by the Review Committee of Senior Positions of College Teachers of Henan Province (河南省高校教師高級職務評委會) in November 1993 and was awarded the title of "Top Expert in Henan Province (河南省優秀專家)" by Henan Government and the Communist Party of China Henan Provincial Committee (中共河南省委) in July 1995.

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Ms. PANG Hong (龐紅), born in April 1955, Chinese. Ms. PANG Hong is an independent non-executive Director of the second session of the Board of the Bank, primarily responsible for supervising and providing independent advice on the operation and management of the Bank. Ms. Pang has been a professor in the School of Finance of Renmin University of China (中國人民大學財政金融學院) since August 2010. Prior to that, she held several positions at Renmin University of China from December 1996 to August 2010, including the deputy secretary to the party committee in the School of Finance from January 2007 to August 2010, a deputy professor from July 2001 to August 2010, and a lecturer from December 1996 to July 2001. She also worked as a teacher in the School of Finance of Central University of Finance and Economics (中央財經大學財政金融學院) from September 1982 to December 1996. Ms. Pang was awarded the prize of “Innovation Pilot of Education in Beijing (北京市教育創新標兵獎)” by the Education Legal Union of Beijing Municipality for the year from 2003 to 2004 and was named the “Teacher of the Year (優秀教師獎)” by Baosteel Education Foundation (寶鋼教育基金會) in November 2003. Ms. Pang was also awarded the title of the “Top 10 Pilot in Education (十大教學標兵)” by Renmin University of China in September 2002 and the title of the “Excellent Ideological and Political Workers in Beijing (北京市優秀思想政治工作者)” by the People’s Government of Beijing Municipality and the Communist Party of China Beijing Municipal Committee (中共北京市委) in March 1991. Ms. Pang received a bachelor’s degree in economics from Central Institute of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance and Economics) in August 1982 and a master’s degree in economics from Central University of Finance and Economics in March 2001.

Mr. JIA Tingyu (賈廷玉), born in August 1942, Chinese. Mr. JIA Tingyu is an independent non-executive Director of the second session of the Board of the Bank, primarily responsible for supervising and providing independent advice on the operation and management of the Bank. Mr. Jia has served as an independent non-executive director of Hang Seng Bank (China) Limited since January 2010, and a member of the audit committee and the chairperson of the risk committee under the board of Hang Seng Bank (China) Limited since May 2010 and April 2010, respectively. Prior to that, he concurrently served as the risk consultant, the deputy chief of the facility approval committee, the deputy chief of the audit committee, and a member of the assets and liability management committee of China CITIC Bank from January 2005 to September 2009. He served as the general manager of the risk control department, the deputy chief of the facility approval committee, and a member of the expert panel of China Merchants Bank successively from March 2000 to December 2004. Additionally, he served as the vice president and the president of the Chengdu Branch of China Merchants Bank successively from July 1997 to March 2000, and the deputy general manager of the facility approval department and the general manager of the department of planning and capital at China Merchants Bank successively from February 1992 to June 1997.

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Mr. CHAN Ngai Sang Kenny (陳毅生), born in November 1964, Chinese (Hong Kong). Mr. CHAN Ngai Sang Kenny is an independent non-executive Director of the second session of the Board of the Bank, primarily responsible for supervising and providing independent advice on the operation and management of the Bank. Mr. Chan has over 20 years of experience in accounting, taxation, auditing and corporate finance. He is a partner and the funder of Kenny Chan & Co., a firm of Certified Public Accountants (Practicing). In addition, Mr. Chan has served on several tribunals and committees of the Government of Hong Kong, which includes the Mandatory Provident Fund Schemes Appeal Board (強制性公積金計畫上訴委員會), the Occupational Retirement Schemes Appeal Board (職業退休計畫上訴委員會), and the Organizing Committee of the Hong Kong Youth Cultural & Arts Competitions Committee (全港青年學藝比賽大會統籌委員會), where he has served as the chairperson. He was a member of the Youth Program Coordinating Committee of the Commission on Youth of the Home Affairs Bureau (民政事務局青年委員會青年活動統籌委員會) from April 2015 to March 2017. Mr. Chan has been an independent non-executive director of several listed companies, including Combest Holdings Limited (HK.8190) from January 2002 to February 2018, Convoy Global Holdings Limited (HK.1019) since April 2015, WLS Holdings Limited (HK.8021) since April 2015, TSC Group Holdings Limited (HK.206) since October 2005, Amco United Holding Limited (HK.630) since June 2015, Sing On Holding Limited (HK.8352) since November 2016, and Minsheng Education Group Co., Ltd. (HK.1569) since March 2017. Mr. Chan is a member of the Institute of Chartered Accountants of New Zealand since March 1998, the Association of International Accountants since October 1998, the Hong Kong Society of Accountants (香港會計師公會) (currently known as the Hong Kong Institute of Certified Public Accountants) since February 1992, and the Hong Kong Institute of Directors (香港董事學會) since October 2016. Mr. Chan is also a member of the Taxation Institute of Hong Kong (香港稅務學會) since August 1998 and the Australian Society of Certified Practicing Accountants since February 1989. Mr. Chan received a bachelor's degree in commerce (accounting and finance) from the University of New South Wales in Australia in October 1988.

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2. Supervisors

Mr. HAO Jingtao (郝驚濤), born in June 1971, Chinese. Mr. Hao Jingtao is the deputy secretary of the party committee of the Bank and the employee representative supervisor of the second session of the Board of Supervisors. He served as an executive director of the Bank from December 2014 to January 2018 and the executive vice president of the Bank from April 2015 to January 2018. Prior to joining the Bank, Mr. Hao Jingtao's major work experience includes: serving as the vice president of the Hefei Branch of China Minsheng Banking Corp., Ltd. (中國民生銀行合肥分行) from December 2013 to December 2014; serving as a member of the party committee and the vice president of the Guiyang Branch of China CITIC Bank (中信銀行貴陽分行) from September 2011 to December 2013. He served successively as the deputy head of the planning group and the vice president of the Luoyang Branch of China CITIC Bank (中信銀行洛陽分行). In addition, he served successively as the general manager of corporate banking department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) and the president of the Information Mansion Sub-branch (信息大廈支行) of the Zhengzhou Branch. His work experience also includes serving as the deputy president of the Zhengzhou Chengdong Sub-branch of Bank of China (中國銀行鄭州城東支行) from December 2003 to February 2005, the president of the Xinmi Sub-branch of Bank of China (中國銀行新密市支行) from June 2001 to December 2003, the deputy head of accounting department of the Zhengzhou Sub-branch of Bank of China from July 1999 to June 2001. He worked at the Zhengzhou Branch of Bank of China from July 1994 to July 1999. Mr. Hao Jingtao received a bachelor's degree in statistics from Zhongnan University of Finance (currently known as Zhongnan University of Economics and Law (中南財經政法大學) in July 1994 and a master's degree in applied economics (financial engineering) from Renmin University of China (中國人民大學) in January 2012. Mr. Hao Jingtao is an accountant accredited by the Ministry of Finance of the People's Republic of China in May 1998.

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Ms. JIA Jihong (賈繼紅), born in September 1963, Chinese. Ms. Jia Jihong is an employee representative supervisor of the second session of the Board of Supervisors. She has been an employee representative supervisor of the first session of the Board of Supervisors since March 2017 and the deputy Supervisor of the first session of the Board of Supervisors of the Bank since April 2017. Prior to joining the Bank, Ms. Jia Jihong's major work experience includes: serving as the president, legal representative and the deputy secretary to the party committee of Nanyang Bank from December 2011 to December 2014 and serving as the president, legal representative and the deputy secretary to the party committee of Nanyang Commercial Bank Co., Ltd from May 2005 to November 2011. Ms. Jia Jihong held several positions in the Nanyang Branch of Agricultural Bank of China, including vice president and the deputy secretary to the party committee from December 1996 to May 2005, the deputy section chief and the section chief of the information computer successively from September 1989 to November 1996. Before that, Ms. Jia Jihong served as an accountant, a facility reviewer, the office chief, the vice president and the chairperson of the labor union of the Sheqi County of Agricultural Bank of China successively from February 1981 to September 1987. Ms. Jia Jihong received a bachelor's degree in management from the Party School of the Central Committee of the Communist Party of China in December 1995, a master's degree in literature from Henan University in October 2001 and an Executive Master in Business Administration degree from Tsinghua University in July 2009. She studied at Wuhan Management Cadres College of Agricultural Bank of China (中國農業銀行武漢管理幹部學院) from September 1987 to July 1989. Ms. Jia Jihong is a certified senior consultant accredited by the Henan Science and Technology Committee (河南省科學技術委員會) in January 1999, a senior economist accredited by Agricultural Bank of China in December 2001 and received the basic qualification certificate for insurance agent from the CIRC in July 2002.

Mr. Zhang Yixian (張義先), born in October 1967, Chinese. Mr. Zhang Yixian is the employee representative supervisors in the second session of the Board of Supervisors of the Bank as the general manager of the audit department. He also served as the general manager of the monitoring and guardian department of the Bank from January 2015 to June 2017. Prior to joining the Bank, Mr. Zhang held several positions successively at China Merchants Bank (招商銀行) from July 2002 to January 2015, including serving as the president of the Yellow River Road Sub-Branch, the general manager of the audit department of the Zhengzhou Branch, the vice president of Luoyang Branch, the deputy general manager of the monitoring and guardian department of Zhengzhou Branch, the vice president of Zhengzhou Weisan Road Sub-Branch (緯三路支行), and the assistant to the general manager of accounting department of Zhengzhou Branch. Mr. Zhang worked at the finance department of the Xinxiang Branch of China Construction Bank (建設銀行新鄉分行) from September 1993 to July 2002 and the finance department of Xingxiang State-owned 103 Factory (新鄉國營103廠財務部) from July 1990 to September 1993. Mr. Zhang received a college diploma in finance and accounting from Zhengzhou University of Aeronautics (鄭州航空工業管理學院) in July 1990, and is a mid-level accountant accredited by the Ministry of Finance of the People's Republic of China in November 1993.

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Mr. ZHAO Ming (趙明), born in November 1958, Chinese. Mr. Zhao is a Shareholder representative Supervisor of the second session of the Board of Supervisors of the Bank. Mr. Zhao's primary work experience prior to joining the Bank includes serving as the legal representative and executive director of Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司) since August 2007 and the chairperson of the board of directors of Henan Guangcai Transportation Construction Co., Ltd. (河南光彩交通建設有限公司) from April 1997 to August 2006. Mr. Zhao's work experience also includes serving as a member and a secretary of the Communication Section of the Publicity Department of the Communist Party of China of Xiangcheng County Committee (中共項城縣委宣傳部) successively from July 1988 to January 1993, an employee of Xiangcheng County Machinery Factory (項城縣機械廠職工) from July 1984 to June 1988, an employee of the Design Group of the Bureau of Water Conservancy Projects in Zhoukou District, Henan Province (河南省周口地區水利局設計隊) from June 1982 to June 1984, and an employee of the Bureau of Water Conservancy Projects of Taikang County (太康縣水利局) from July 1974 to May 1982. He was also a representative of the 10th, 11th and 12th People's Congress of Henan Province. Mr. Zhao completed his undergraduate education in water engineering and construction at Zhengzhou Industrial College (鄭州工學院) in July 1978. Mr. Zhao is a senior economist accredited by the Henan Private Sector Science and Technology Senior Professionals Review Committee (河南省民營科技高評委) in December 2004.

Ms. LI Weizhen (李偉真), born in June 1965, Chinese. Ms. Li Weizhen is a Shareholder representative Supervisor of the second session of the Board of Supervisors of the Bank. Ms. Li has been the deputy chief of Henan Mingrui Accounting Firm (河南明銳會計師事務所) since November 2015 and the general accountant of Zhengzhou Kangqiao Real Estate Development Co. Ltd (鄭州康橋房地產開發有限責任公司) since December 2009. Ms. Li's work experience also includes serving as the general manager of Henan Chenghe Accounting Firm (河南誠和會計師事務所) from June 2008 to November 2015 and the deputy chief accountant of Asia Pacific (Group) CPAs (亞太(集團)會計師事務所) from October 1993 to June 2008. Ms. Li has been an independent non-executive director of several listed companies, including Zhengzhou Coal Industry and Electric Power Co., Ltd. (鄭州煤電股份有限公司) (SH.600121) since May 2016, Henan Tongli Cement Co., Ltd. (河南同力水泥股份有限公司) (SZ.000885) since February 2016 and Zhongyuan Environment protection Co., Ltd. (中原環保股份有限公司) (SZ.000544) since July 2013. Ms. Li completed her undergraduate education in planning and statistics in the department of economics at Zhengzhou University (鄭州大學) in July 1987 and received a master's degree in accounting from Zhengzhou University in June 1999. Ms. Li received the qualification as a PRC certified public accountant from the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2008 and was accredited as a senior accountant by the Senior Review Committee of Accounting Professions of Henan Province (河南省會計系列高評會) in November 2002.

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Mr. LI Wanbin (李萬斌), born in December 1971, Chinese. Mr. Li Wanbin is a Shareholder representative Supervisor of the second session of the Board of Supervisors of the Bank. Mr. Li has been the chairperson of the board of directors of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) since March 2011. Before that, Mr. Li worked as a director, the vice president, the general manager, the vice chairman of the board of directors and a member of the party committee of Henan Blue Sky Group Co., Ltd. (河南藍天集團有限公司) successively from July 2003 to August 2008. In addition, Mr. Li served as the chairperson of the board of directors of several companies, including Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司) from August 2008 to March 2011, Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司) from October 2003 to October 2004, and Southern Henan Gas Co., Ltd. (河南省豫南燃氣有限公司) from September 2000 to December 2002. Mr. Li was also a director and the executive vice general manager of Henan Zhongyuan Gas and Chemical Engineering Investment Co., Ltd (河南中原氣化工程投資有限公司) from June 1999 to April 2001, and a sales personnel, the vice general manager and the general manager of Zhumadian Middle Distillate Co., Ltd. (駐馬店中油銷售有限公司) successively from July 1994 to June 1999. Mr. Li received an Executive Master of Business Administration degree from Hong Kong University of Science and Technology (香港科技大學) in June 2012.

Mr. LI Xiaojian (李小建), born in August 1954, Chinese. Mr. Li Xiaojian is an external Supervisor of the second session of the Board of Supervisors of the Bank. Mr. Li's primary work experience prior to joining the Bank includes serving as the principal of Henan University of Economics and Law from September 2010 to September 2015, the principal of Henan College of Finance from October 2003 to September 2010, the vice principal of Henan University from September 2001 to October 2003, and the dean of the school of environment and planning of Henan University from April 1994 to September 2001. Mr. Li received a bachelor's degree in geography from Henan Normal University (河南師範大學) in January 1982. He received a doctor's degree in economical geography from Nankai University (南開大學) in June 1990 and completed a doctorate program at Australian National University in March 1990, respectively. Mr. Li is a professor accredited by Henan Government in November 1993.

Mr. HAN Wanghong (韓旺紅), born in March 1954, Chinese. Mr. HAN Wanghong is an external Supervisor of the second session of the Board of Supervisors of the Bank, currently a professor, a Ph.D. supervisor, and the deputy director of the Investment Study Centre of Zhongnan University of Economics and Law, as well as the vice president of the Committee of the Construction of the Investment Major of the Investment Association of China (中國投資協會投資學科建設委員會). Before that, he held various other positions at Zhongnan University of Economics and Law, including the head of the investment department from September 2004 to December 2011, and a lecturer and a deputy professor successively from September 1987 to August 2002. Mr. Han received a bachelor's degree in economics from Hubei College of Finance in July 1982, a master's degree in economics from Zhongnan University of Finance in November 1985 and a doctor's degree in industrial economics from Zhongnan University of Economics and Law in December 2008.

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Mr. SUN Xuemin (孫學敏), born in April 1963, Chinese. Mr. SUN Xuemin is an external Supervisor of the second session of the Board of Supervisors of the Bank. Mr. Sun currently holds several positions at Zhengzhou University, including a professor in the business department since November 2001, the chief of the Strategic Research Centre of the Development of Modern Industry and Enterprises (現代產業與企業發展戰略研究中心) since April 2010 and the chief of the Corporation Research Centre (企業研究中心) since April 2004. Mr. Sun's work experience also includes serving as an independent non-executive director of Jindan Rusuan Technology Co., Ltd. (河南金丹乳酸科技股份有限公司) (a company listed on the National Equities Exchanges and Quotations in the PRC, stock code: 832821) since April 2011, the legal representative and the executive director of Zhengzhou Jiebang Management Consulting Co., Ltd. (鄭州傑邦管理諮詢有限公司) since April 2005, the director of Zhengzhou High-Tech Valley of Technology Development Co., Ltd. (鄭州高創穀科技園開發有限公司) since July 2015, the legal representative and executive director of Zhengzhou Zhengda Yunchuang Technology Co., Ltd. (鄭州鄭大雲創科技有限公司) since December 2015. Mr. Sun served as a member and the deputy chief of the "Expert Committee for Small and Medium Enterprises in Zhengzhou" (鄭州市中小企業專家服務團) from December 2010 to May 2014. Mr. Sun received a doctor's degree in western economy from Huazhong University of Science and Technology in June 2008.

3. Senior Management

For biographical details of Mr. WANG Jiong (王炯) and Mr. LI Yulin (李玉林), please see "3. Biography of Directors, Supervisors and Senior Management — 1. Directors" in this chapter. For the biographical details of Mr. ZHANG Yixian, please see " — 3. Biography of Directors, Supervisors and senior management — 2. Supervisors" in this chapter.

Mr. LIU Kai (劉凱), born in March 1971, Chinese. Mr. LIU Kai has served as a vice president of the Bank since December 2014. Mr. LIU Kai has more than 20 years of experience in banking operations and management. Mr. LIU's primary work experience prior to joining the Bank includes serving as: a member of the Leading Group Office from December 2013 to December 2014, the assistant to the head of the Bureau of Financial Market of PBoC from August 2011 to November 2013, the president and the secretary to the party committee of PBoC Anyang Central Sub-branch and the head of the Anyang Central Sub-bureau of the State Administration of Foreign Exchange (國家外匯管理局安陽支局) from May 2007 to August 2011. He served successively as a chief section member, the deputy chief and the chief of the office of the party committee and the manager of the office of legal affairs of PBoC Zhengzhou Central Sub-branch from January 1999 to April 2007. Prior to that, Mr. LIU served successively as an officer and a section member of the finance management department and a deputy chief section member and a chief section member of the office of the Henan Branch of PBoC from July 1994 to January 1999. He worked at PBoC Tanghe County Sub-branch from July 1993 to July 1994. Mr. LIU received a bachelor's degree in the science of law from Zhengzhou University in June 1993, and a master's degree in liberal arts from Henan University in June 2007. Mr. LIU received a certificate for passing the lawyer's qualification exam from the Department of Justice of Henan Province (河南省司法廳) in May 1995 and is a senior economist accredited by the PBoC in May 2005.

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Mr. ZHAO Weihua (趙衛華), born in March 1977, Chinese. Mr. Zhao Weihua is the vice president and the chief risk officer of the Bank. Mr. ZHAO Weihua has more than 15 years of experience in banking operations and management. Prior to joining the Bank, Mr. ZHAO served as a member of the Leading Group Office from December 2013 to December 2014. Before that, Mr. ZHAO held various positions in the Zhengzhou Branch of China CITIC Bank from July 2009 to December 2013, including the assistant to the general manager of the risk management department and the retail banking department, the deputy general manager, the general manager of the risk management department and the manager of the credit approval department. In addition, he served as the credit approval manager of the Zhengzhou Branch of China CITIC Bank from July 2006 to February 2008. He worked as the assistant to the president of the Zhengzhou Zijing Shan Road Sub-branch of China CITIC Bank from February 2008 to July 2009. Prior to that, Mr. Zhao served as an accountant, a credit administrator, a specialized facility reviewer, the manager of the real estate facility department and the deputy manager of the real estate finance business department of the Henan Province Branch of China Construction Bank successively from August 1999 to August 2004. Mr. ZHAO received a bachelor's degree in economics from Shaanxi College of Finance (陝西財經學院) (currently known as Xi'an Jiaotong University (西安交通大學)) in July 1999 and a Master of Business Administration degree from Sun Yat-Sen University (中山大學) in June 2006. Mr. ZHAO is a mid-level economist accredited by the Human Resources Department of the PRC in November 2007.

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Mr. Zhou Litao (周麗濤), born in November 1979, Chinese. Mr. Zhou Litao is the vice president of the Bank. He was transferred as the corporate business director of the Bank from December 2011 to March 2018. Prior to joining the Bank, Mr. Zhou held several positions, including serving as the general manager of the asset management department of the investment banking division of the China CITIC Bank from May 2013 to December 2014, the general manager of the strategic customer department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) from January 2013 to May 2013, the product manager, assistant to general manager, deputy general manager and general manager of the investment banking center of Zhengzhou Branch of China CITIC Bank successively from March 2008 to January 2013, and the product manager of corporate banking department of Zhengzhou Branch of China CITIC Bank from February 2006 to March 2008. Mr. Zhou studies for his master's degree in the School of Humanities and Social Sciences of Xi'an Jiaotong University(西安交通大學), majoring in business administration from September 2003 to February 2006. He worked at the Henan Branch of the China Construction Bank(中國建設銀行河南省分行) from July 2001 to July 2003. Mr. Zhou received a bachelor's degree in business administration in July 2001 and a master's degree in business administration in February 2006, both from Xi'an Jiaotong University. Mr. Zhou was recognized as an intermediate economist by the Ministry of Personnel of the People's Republic of China in November 2007.

Mr. Liu Qingfen (劉清奮), born in March 1970, Chinese. Mr. Liu Qingfen is an assistant to the president of the Bank. He served as the secretary to the party committee and general manager of the head office of the Bank from December 2014 to July 2017 and the secretary to the party committee and president of the Branch of the Bank(中原銀行鄭州分行) from July 2017 to February 2018. Mr. Liu is the general manager of the corporate banking department of the Bank since February 2018 and has been an assistant to the president of the Bank since March 2018. Prior to joining the Bank, Mr. Liu held several positions, including serving as a section member of the office of Zhengzhou Commercial Bank(鄭州市商業銀行) from July 1994 to July 1998, the vice president of Zhengbian Road Sub-branch(鄭汴路支行) and Qiaojiamen Sub-branch (喬家門支行)of Zhengzhou Commercial Bank successively from July 1998 to March 2000, the deputy director of the office of Zhengzhou Commercial Bank from March 2000 to November 2000, the deputy section chief and section chief of the customer section of Zhengzhou Branch of Bank of Communications(交通銀行鄭州分行) from November 2000 to April 2004, the vice president and president of the Weiwu Road Sub-branch(緯五路支行) of the Zhengzhou Branch of Bank of Communications successively from April 2004 to April 2006, the head of business expansion department of the Zhengzhou Branch of China Industrial Bank(興業銀行鄭州分行) from April 2006 to July 2007, the president of the Dongdajie Sub-branch (東大街支行)of the Zhengzhou Branch of China Industrial Bank from July 2007 to July 2012, the director of the Dongdajie business department of the Zhengzhou Branch of China Industrial Bank from July 2012 to January 2013, the deputy secretary to the party committee and the president of Kaifeng Commercial Bank(開封市商業銀行) from January 2013 to December 2014. Mr. Liu graduated from Zhengzhou University(鄭州大學) with a bachelor's degree in Chinese language and literature in June 1994.

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Mr. Yi Haiqing (儀海清), born in October 1975, Chinese. Mr. Yi Haiqing is an assistant to the president of the Bank. He served as the general manager of the Institutional Customer Department (機構事業部) of the Bank from March 2015 to June 2016, the president of Zhengzhou Dongfeng South Road Sub-branch(鄭州東風南路支行) (Institutional Customer Department) of the Bank from June 2016 to December 2017 and the general manager of the Conglomerate Customer Department (集團客戶部) of the Bank from December 2017 to February 2018. Mr. Yi is the president of Zhengzhou Xianghu Sub-branch(鄭州象湖支行) (Conglomerate Customer Department) of Zhongyuan Bank since February 2018 and has been an assistant to the president of the Bank since March 2018. Prior to joining the Bank, Mr. Yi held several positions, including serving as the account manager and head of the customer department of Henan Branch of Agriculture Bank of China (中國農業銀行河南省分行) from July 1998 to March 2005, the product manager of the corporate banking department of Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) from March 2005 to August 2007, the secretary to the office of Zhengzhou Branch of China CITIC Bank from August 2007 to October 2009, the assistant to the general manager of the auto finance center of Zhengzhou Branch of China CITIC Bank from November 2009 to January 2012, the deputy general manager of the corporate banking department of Zhengzhou Branch of China CITIC Bank from January 2012 to January 2013 and the president of the Longhai Sub-branch of Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行隴海路支行) from January 2013 to March 2015. Mr. Yi graduated from Henan Agricultural University(河南農業大學) in July 1998 with a bachelor's degree in trade economics.

Mr. Yao Hongbo (姚紅波), born in April 1969, Chinese. Mr. Yao Hongbo is an assistant to the president of the Bank. He is the secretary to the party committee and president of the Xinxiang Branch of the Bank (中原銀行新鄉分行) since March 2016 and has been an assistant to the president of the Bank since March 2018. Prior to joining the Bank, Mr. Yao held several positions, including serving as an officer of accounting department, deputy director of the office, deputy section chief of the credit department and director of a small local branch of Mianchi County Sub-branch of China Construction Bank(中國建設銀行澠池縣支行) successively from July 1992 to April 2001, an officer of the general asset preservation department, an officer of the research section under the office and the section chief of the organization section under the human resources department of Henan Branch of China Construction Bank(中國建設銀行河南省分行) successively from April 2001 to February 2005, the assistant to the director, deputy director and the secretary to the party committee and the deputy director of the party committee office of Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) successively from February 2005 to January 2008, the vice president of the Wenhua Road Sub-branch(文化路支行) of Zhengzhou Branch of China CITIC Bank from January 2008 to January 2010, the president of the Huanghe Road Sub-branch(黃河路支行) of Zhengzhou Branch of China CITIC Bank from January 2010 to April 2010, the president of the Dongfeng Road Sub-branch(東風路支行) of Zhengzhou Branch of China CITIC Bank from April 2010 to January 2013, the secretary to the party committee and the president of Jiaozuo Branch of China CITIC Bank (中信銀行焦作分行) from January 2013 to October 2015 and the general manager of the corporate banking department of Zhengzhou Branch of China CITIC Bank from October 2015 to March 2016. Mr. Yao graduated from Zhengzhou University(鄭州大學) in June 1992 with a bachelor's degree in finance.

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Mr. ZHANG Ke (張克), born in October 1977, Chinese, has served as the secretary to the Board of the Bank since December 2014. His primary work experience prior to joining the Bank includes serving as a member of the Leading Group Office of the Reform and Reorganization of Certain City Commercial Banks in Henan Province (河南省部分城市商業銀行改革重組工作), from December 2013 to December 2014, the general manager of the accounting finance department, the chief accountant and a director of Kaifeng Commercial Bank from April 2010 to December 2013, as well as a business manager of the corporate planning department of Henan Investment Group Co., Ltd. (河南投資集團有限公司) from July 2007 to March 2010. Before that, Mr. ZHANG Ke worked as a deputy chief officer in the accounting finance section of the Central Sub-branch of Sanmenxia City of the PBoC from July 1999 to June 2007. In addition, Mr. ZHANG Ke is an advisor for graduate students at Henan University for a term of three years commencing from January 2015. Mr. ZHANG Ke received a bachelor's degree in management from Henan University of Finance in June 1999 and a Master of Business Administration degree from Xi'an University of Technology in April 2006.

Ms. ZHANG Yi (張怡), born in March 1973, Chinese, has served as the general manager of the planning and financing department of the Bank since September 2015. Ms. ZHANG Yi has more than eight years of experience in banking operations and management. Her primary work experience prior to joining the Bank includes serving as a member of the Leading Group Office of the Reform and Reorganization of Certain City Commercial Banks in Henan Province (河南省部分城市商業銀行改革重組工作) from December 2013 to December 2014, the deputy general manager of the planning and financing department from March 2011 to December 2013, and an employee and the assistant to the general manager of the planning and financing department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) successively from June 2008 to March 2011. Ms. ZHANG Yi worked as an employee in the finance and accounting department at Henan Finance Securities Co., Ltd. (河南財政證券公司) from August 2000 to December 2001 and as an officer in the Government Procurement Department of the Bureau of Finance of Henan Province (河南省財政廳政府採購處) from January 1999 to August 2000. Ms. ZHANG Yi worked at Central China Securities Co., Ltd. (中原證券股份有限公司) from January 2002 to June 2005. Prior to that, Ms. ZHANG Yi was transferred from Henan Finance Securities Co., Ltd. to serve as an officer in the Administrative Politics and Law Department of the Bureau of Finance of Henan Province (河南省財政廳行政政法處) from January 1995 to December 1998, and she served as an employee in the computer department of Henan Finance Securities Co., Ltd. from August 1994 to December 1994. Ms. ZHANG Yi received a bachelor's degree in economics from Jiangxi Finance College (江西財經學院) in July 1994, a Master of Business Administration degree from Henan University in June 2004, and a doctor's degree in accounting from the Business School of Renmin University of China in June 2008. She is a senior accountant accredited by Henan Government in May 2005.

Chapter 7 Directors, Supervisors, Senior Management and Employees

4. Confirmation of Independence of Independent Non-executive Directors

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

5. Information on Remuneration paid to Directors, Supervisors and Senior management

Please refer to Note 10 to the financial statements for the remuneration of Directors and Supervisors during the Reporting Period. During the year ended December 31, 2017, no emolument was paid by the Bank to any of the Directors, Supervisors or the five highest paid individuals (including Directors, Supervisors and employees) as an inducement to join or upon joining the Bank or as compensation for loss of office.

Remuneration paid to the senior management (excluding the Directors and Supervisors) by bands for the year ended December 31, 2017 is set out below:

	No. of employees	% to the total
RMB0 to RMB1,000,000	0	0.0%
RMB1,000,000 to RMB2,000,000	3	37.5
RMB2,000,000 to RMB3,000,000	1	12.5%
RMB3,000,000 to RMB4,000,000	4	50.0%

Note:

- (1) As of December 31, 2017, two senior management of the Bank were also Directors, namely Mr. WANG Jiong (王炯) and Mr. HAO Jingtao (郝驚濤). For details of the remuneration of Mr. WANG Jiong and Mr. HAO Jingtao, please refer to note 10 to the financial statements of this annual report.

6. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code as the code of conduct for securities transactions of the Bank by all Directors and Supervisors. The Bank has also put in place guidelines in respect of dealings in securities of the Company, which terms are no less exacting than those of the Model Code, for the relevant employees (as defined in the Listing Rules). Having made specific enquiries to all Directors and Supervisors regarding their compliance with the Model Code, each of the Directors and Supervisors confirmed that those standards as provided thereunder have been complied with for the period from the Listing Date (July 19, 2017) to December 31, 2017. Having made specific enquiries to the relevant employees regarding their compliance with the guidelines of dealing in securities of the Company, the Bank is not aware of any incompliance with the guidelines.

Chapter 7 Directors, Supervisors, Senior Management and Employees

7. Interests and Short Positions of Directors, Supervisors and Senior Management in Shares, Underlying Shares and Debentures

As of December 31, 2017, the Directors, Supervisors and chief executive officers of the Bank who had interests and short positions in the Shares, underlying Shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank under Section 352 of the SFO, or which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code were as follows:

1. Interests in Shares of the Bank (Long Positions)

Name	Class of Shares	Nature of interests	Number of Shares	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽¹⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽¹⁾
Ms. HU Xiangyun	Domestic Shares	Beneficial owner	500,000	0.00	0.00
Mr. LI Xipeng ⁽²⁾	Domestic Shares	Interest in controlled corporation	753,000,000	4.63	3.75
Ms. JIA Jihong	Domestic Shares	Beneficial owner	2,472	0.00	0.00
Mr. SI Qun	Domestic Shares	Beneficial owner	126,321	0.00	0.00
Mr. LI Wanbin ⁽³⁾	Domestic Shares	Interest in controlled corporation	407,657,871	2.50	2.03
Mr. ZHAO Ming ⁽⁴⁾	Domestic Shares	Interest in controlled corporation	568,000,000	3.49	2.83

Chapter 7 Directors, Supervisors, Senior Management and Employees

Note:

- (1) As of December 31, 2017, the number of total issued Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
- (2) Mr. LI Xipeng and his spouse hold 100% equity interest in Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司). Therefore, by virtue of the SFO, Mr. LI Xipeng is deemed to be interested in the 753,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司).
- (3) Mr. LI Wanbin and his spouse directly and indirectly hold 100% equity interest in Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司). Therefore, by virtue of the SFO, Mr. LI Wanbin is deemed to be interested in the 407,657,871 Domestic Shares of the Bank (long positions) directly held by Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司).
- (4) Mr. ZHAO Ming holds 75.34% equity interest in Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司). By virtue of the SFO, Mr. ZHAO Ming is deemed to be interested in the 568,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司).

2. Interests in Associated Corporations (Long Positions)

Name	Associated corporation	Nature of interests	Number of Shares	Approximate percentage of share capital (%)
Ms. HU Xiangyun	Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司)	Beneficial owner	600,000	0.86

Note: The Bank holds 51.72% equity interest and voting rights of Xinyang Pingqiao Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), a subsidiary of the Bank.

Chapter 7 Directors, Supervisors, Senior Management and Employees

8. Employees' Remuneration Policies and Training Programs

As of December 31, 2017, we had 13,540 full-time employees in total, of which 1,281 employees at our head office and 12,259 employees at our branches and sub-branches. As of December 31, 2017, 9,926 employees or 73.31% had bachelor's degrees or above, with the average age of 35.24. We had 717 employees at village and township banks sponsored by the Bank and 140 employees at Henan Zhongyuan Consumer Finance Corp., Ltd. (“河南中原消費金融股份有限公司”).

1. Remuneration Policies for Directors, Supervisors and Senior Management

The Bank provide remuneration for Directors, Supervisors and Senior Management according to the “Administrative Measures on the Remuneration of Directors and Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司董事、監事薪酬管理辦法》)”, “Administrative Measures on the Remuneration of Senior Management of Head Office of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司總行高級管理人員薪酬管理辦法》)”, “Measures for Evaluating the Performance of Directors and Senior Management of Board of Directors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司董事會對董事、高管人員履職評價辦法》)”, “Measures for Evaluating the Performance of Directors, Supervisors and Senior Management of Board of Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司監事會對董事、監事、高管人員履職評價辦法》)” and “Measures for the Administration of the Performance Appraisal of Senior Management of Head Office of Zhongyuan Bank Co., Ltd. in 2017(《中原銀行股份有限公司2017年總行高級管理人員績效考核管理辦法》)”.

2. Employees' Remuneration Policies

The Bank's remuneration policies aim to establish a well-developed, scientific and effective incentive and restraint mechanism for realization of shareholder value and optimization of the Bank's efficiency and employees' interests. The policy facilitates stable operation and sustainable development of the Bank, which is therefore conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and control of risks. The Bank established a position evaluation-based and operating results-oriented remuneration distribution mechanism with reference to prevailing market rates, which played an incentive and restraint role, therefore, it is applicable to all employees of Zhongyuan Bank. At the same time, the Bank developed a professional serial review method for employees to broaden the career development channels for employees, and established corresponding compensation incentive policies. Employees' Remuneration Policies are consistent with the risk management system. In accordance with the principle of combining immediate incentives with long-term incentives and combining effective incentives and accountability constraints and based on the needs of risk management, the Bank mitigates risks though deferred payment of performance compensation of senior management for the risk factors that are not reflected currently.

The relevant remuneration management system of the Bank should be submitted to the Board of Directors, the Executive Committee of the Board and the Nomination and Remuneration Committee for review.

Chapter 7 Directors, Supervisors, Senior Management and Employees

3. Employees Training Programs

The Bank upholds a people-oriented management philosophy and takes “implementing innovation-driven strategies and enhancing the quality and efficiency of training on management” as focus to formulate annual training plan, and provides training programs to its employees at various levels, with high frequency, through multiple channels and in multiple forms on the basis of its business development strategies and training plans, with an aim to enhance the overall quality, professional capabilities and management skills of its staff in a continuous and comprehensive manner, to build up a professional team specializing in business operations and management, and to drive the rapid and healthy development of its businesses. The Bank manages its training programs based on the mechanism of “standardized principles and planning, and hierarchical management and implementation”, and establishes a three-tier training system comprising “head office, branch, sub-branch (sector)”. During the reporting period, the Bank organized 303 tier 1 training in various categories in total, the planned completion rate is 100% with aggregated number of staff trained of 31,379 and 2.5 trainings per head. 18 branches of the Bank reported 1,793 tier 2 training programs at the beginning of the year and completed 2,022 training programs with the training duration of 2,527.5 days and aggregated number of staff trained of 165,090 and 14 trainings per head. Our training has basically reach full staff coverage and provides strong human resources protection for the business development of the Bank.

Chapter 7 Directors, Supervisors, Senior Management and Employees

5. Basic Information of Institutions Under the Bank

At the end of the Reporting Period, there are 18 branches and 3 direct sub-branches, and 460 outlets in total, including 309 county-level branches and 151 township-level sub-branches, which covered 93 counties under the Bank. The following table sets out the branches and sub-branches:

No.	Region	Name of the Branch	Business Address (China)	Remarks
1	Zhengzhou, Henan	Headquarter	Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province	Directly in charge of 3 sub-branch institutions
2	Zhengzhou, Henan	Zhengzhou	Shengrun International Plaza, 219 Jinshui Road, Zhengzhou City, Henan Province	In charge of one business department and 28 sub-branch institutions
3	Kaifeng, Henan	Kaifeng	No. 246, West Daliang Road, Kaifeng City, Henan Province	In charge of one business department and 33 sub-branch institutions
4	Xinyang, Henan	Xinyang	1/F, Approval Centre, Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department and 28 sub-branch institutions
5	Anyang, Henan	Anyang	No. 11, Jiefang Avenue, Anyang City, Henan Province	In charge of one business department and 26 sub-branch institutions
6	Hebi, Henan	Hebi	1/F, Finance Centre, Qishui Avenue, Qibin District, Hebi City, Henan Province	In charge of one business department and 17 sub-branch institutions

Chapter 7 Directors, Supervisors, Senior Management and Employees

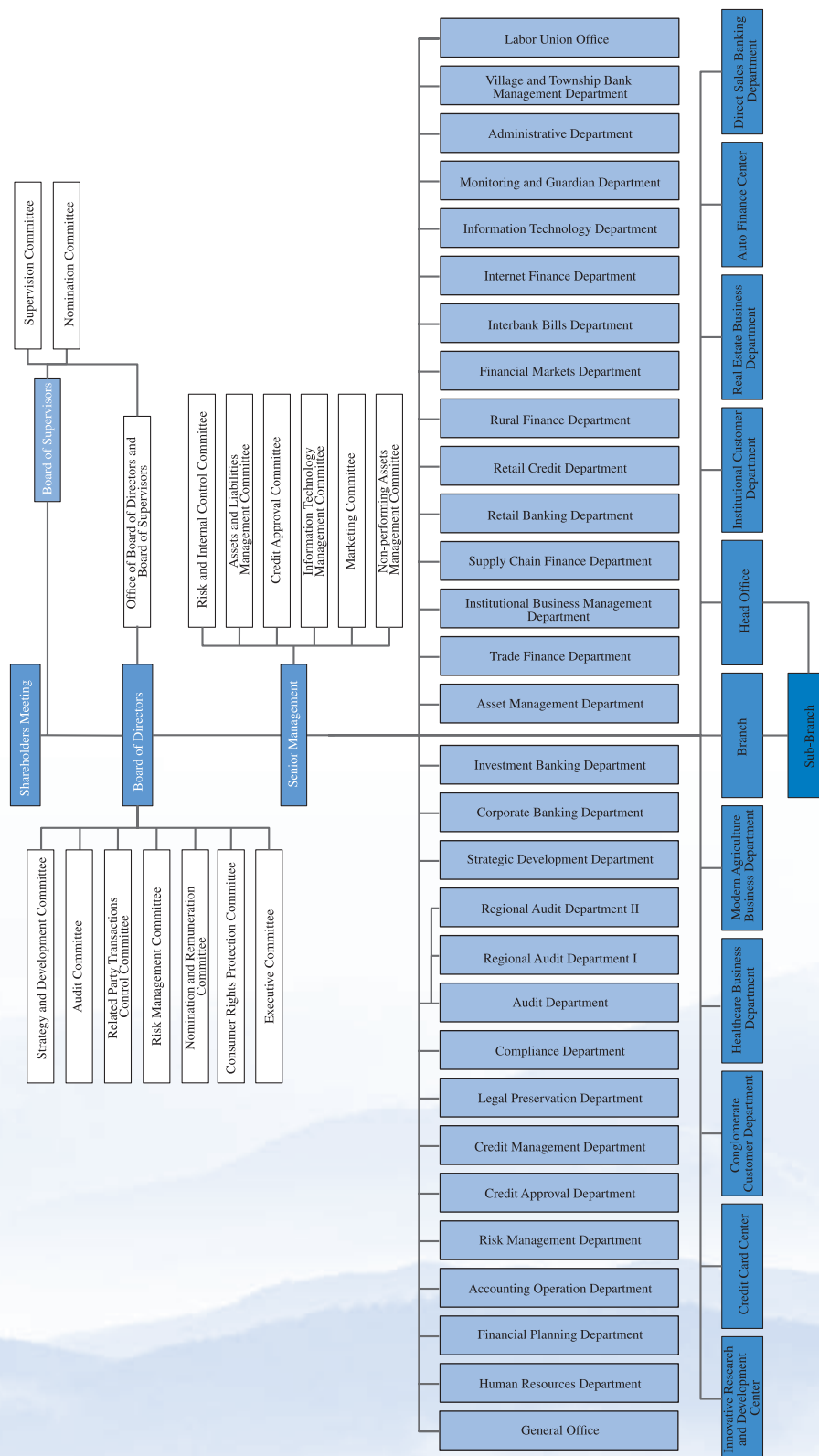
No.	Region	Name of the Branch	Business Address (China)	Remarks
7	Luohe, Henan	Luohe	Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department and 19 sub-branch institutions
8	Nanyang, Henan	Nanyang	No.6, Zhangheng Road, Nanyang City, Henan Province	In charge of one business department and 43 sub-branch institutions
9	Pingdingshan, Henan	Pingdingshan	Northwest Corner, Intersection of Zhongxing Road and Zhannan Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of one business department and 11 sub-branch institutions
10	Puyang, Henan	Puyang	No.444, Shenglizhong Road, Puyang City, Henan Province	In charge of one business department and 22 sub-branch institutions
11	Sanmenxia, Henan	Sanmenxia	No. 64, Middle Xiaoshan Road, Sanmenxia City, Henan Province	In charge of one business department and 27 sub-branch institutions
12	Shangqiu, Henan	Shangqiu	Northeast Corner, Shangzi Plaza, Shangqiu City, Henan Province	In charge of one business department and 48 sub-branch institutions
13	Xinxiang, Henan	Xinxiang	No.559 Pingyuan Road, Hongqi District, Xinxiang City, Henan Province	In charge of one business department and 38 sub-branch institutions

Chapter 7 Directors, Supervisors, Senior Management and Employees

No.	Region	Name of the Branch	Business Address (China)	Remarks
14	Xuchang, Henan	Xuchang	East Jianan Avenue, Xuchang City, Henan Province(On the west to the Bureau of Finance)	In charge of one business department and 27 sub-branch institutions
15	Zhoukou, Henan	Zhoukou	MOCO New world Business Office Building, intersection of Qingfeng Road and Zhoukou Avenue, Zhoukou City, Henan Province	In charge of one business department and 26 sub-branch institutions
16	Zhumadian, Henan	Zhumadian	No. 168, Wenming Road, Zhumadian City, Henan Province	In charge of one business department and 40 sub-branch institutions
17	Jiaozuo, Henan	Jiaozuo	No.479, Renmin Road, Jiefang District, Jiaozuo City, Henan Province	In charge of one business department and 6 sub-branch institutions
18	Jiyuan, Henan	Jiyuan	No. 481, Middle Yellow River Road, Jiyuan City, Henan Province	In charge of one business department
19	Luoyang, Henan	Luoyang	No.66, Changxing Street, Luolong District, Luoyang City, Henan Province	In charge of one business department

Chapter 8 Corporate Governance Report

1. Organizational Structure Chart of Corporate Governance



Chapter 8 Corporate Governance Report

2. Summary of Corporate Governance

During the Reporting Period, the Bank has continuously enhanced the transparency of corporate governance for safeguarding shareholders' interests and enhancing the corporate values.

The Bank has established a comprehensive corporate governance structure in accordance with the requirements under the Hong Kong Listing Rules. The compositions of the Board and its special committees are in accordance with the requirements under the Hong Kong Listing Rules. The responsibilities are clearly split among the general meeting, the Board, the Board of Supervisors and the senior management. The general meeting is the authority of the Bank, which exercises its powers in accordance with the laws. The Board shall be accountable to the shareholders' general meeting, and our Bank currently has five special committees under the Board. The special committees are operated under the leadership of the Board, and advise on the decision-making of the Board. The Executive committee under the Board is a standing organization of the Board. The Board of Supervisors shall be accountable to the shareholders' general meeting, with the target of safeguarding the legitimate interests of the Bank, the Shareholders, staff, creditors and other stakeholders, as well as supervising the stable and compliance operation of the Bank and the performance of the Board and the senior management. The senior management of the Bank work under the leadership of the Board, which is responsible for the implementation of the resolutions of the Board, the daily business operations of the Bank and reporting to the Board and the Board of Supervisors on a regular basis. The president of the Bank shall be appointed by the Board and shall be accountable to the Board, which is responsible for the overall business operation and management of the Bank.

Since the Listing date of the Bank on the Main Board of the Hong Kong Stock Exchange to December 31, 2017, the Bank strictly complied with the code provisions as stated in the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules and the listing rules in relation to the disclosure of insider information. The Directors are not aware of any information which indicates that the Bank has not complied with the code provisions as stated in the Corporate Governance Code during the Reporting Period.

The Bank will continue to review and enhance corporate governance, for ensuring that our corporate governance continues to comply with the requirements under the Corporate Governance Code and to achieve a higher expectation from the Shareholders and investors.

Chapter 8 Corporate Governance Report

2.1 Information Regarding the Convening of the Shareholders' General Meetings

Two Shareholders' general meetings were held during the Reporting Period.

On February 7, 2017, the Bank held the first extraordinary general meeting for 2017, at which nine proposals were considered, including "Proposal on the Amendment of the Articles of Association of Zhongyuan Bank Co., Ltd.", "Proposal on the Amendment of the Rules of Procedure for Shareholders' General Meeting of Zhongyuan Bank Co., Ltd." and "Proposal on the Amendment of the Rules of Procedure for Meetings of the Board of Directors of Zhongyuan Bank Co., Ltd., etc".

On April 6, 2017, the Bank held the 2016 annual general meeting, at which nine proposals were considered, including "Proposal on the Working Report of the Board of Directors for 2016", "Proposal on the Working Report of the Board of Supervisors for 2016" and "Proposal on the Final Financial Accounts for 2016, etc".

The convening, notice, holding and voting procedures of the aforesaid Shareholders' general meetings were in accordance with the relevant laws and regulations and the relevant requirements of the Articles of Association of the Bank.

2.2 The Board

2.2.1 Operation of the Board

The board meetings are classified as regular board meeting and interim board meeting in accordance with the time of notice for convening. The board meeting can be convened in the form of a physical meeting or in the form of written resolutions. The Board shall hold at least four regular meetings annually. Prior to the listing of the H Shares, it shall give 10 days advance notice to the Directors, and after the listing, the convening of the regular board meeting shall be given 14 days advance writing notice to all Directors and Supervisors in accordance with the revised Articles of Association, while 3 days advance notice shall be given to the Directors and the Supervisors for the interim board meeting. The Board and all of the Directors and the senior management have established a good and communication mechanism. All the Directors can freely express their opinions at the Board meeting, and all the important decisions are made after discussion.

The Board has set up an office as its daily working organization which is responsible for preparing the general meeting, the Board and all the special committees under the Board, and is responsible for implementing all the matters assigned by the general meeting, the Board and the special committees under the Board. The Board and the senior management exercise their authority in accordance with the requirements under our Articles of Association, and the Board of the Bank performs regular discussion on risk management and internal control system. The Board believes that the risk management and internal control system established and implemented by the Bank is sufficient and effective.

Chapter 8 Corporate Governance Report

2.2.2 Composition of the Board

As of the end of the Reporting Period, the Board consists of 10 Directors, including 4 executive Directors, i.e. Mr. DOU Rongxing, Ms. HU Xiangyun, Mr. WANG Jiong and Mr. HAO Jingtao; 2 non-executive Directors, i.e. Mr. LI Qiaocheng and Mr. LI Xipeng; and four independent non-executive Directors, i.e. Mr. LI Hongchang, Ms. PANG Hong, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny. Mr. DOU Rongxing is the Chairman. Please refer to “Chapter 7 Directors, Supervisors, Senior Management and Employees” of this annual report for changes in the follow-up matters.

2.2.3 Functions and Powers of the Board

The Board shall be accountable to the Shareholders’ general meeting and shall exercise the following functions and powers:

1. convening Shareholders’ general meetings and reporting its performance at the general meetings;
2. implementing resolutions of the Shareholders’ general meetings;
3. deciding on development strategies, operational plans and investment programs of the Bank;
4. working out annual financial budget plans and final account plans of the Bank;
5. formulating profit distribution plans and plans for recovery of losses of the Bank;
6. formulating proposals for increases in or reductions of registered share capital, issuance of bonds or other securities and listing plans of the Bank;
7. formulating proposals for repurchase of the Bank’s shares, merger, separation, change of the nature of the Bank and dissolution or liquidation;
8. within the scope of authority of the Shareholders’ general meeting or within the powers prescribed by our Articles of Association, considering matters in relation to major equity investment and disposal with a single amount representing more than five percent (exclusive) and less than ten percent (inclusive) of the most recent audited net asset of the Bank;
9. within the scope of authority of the Shareholders’ general meeting or within the powers prescribed by our Articles of Association, considering matters in relation to major asset acquisition and disposal with a single amount representing more than five percent (exclusive) and less than ten percent (inclusive) of the most recent audited net asset of the Bank;

Chapter 8 Corporate Governance Report

10. deciding on the establishment of the internal management structure of the Bank;
11. appointing or removing senior management, including the president and the secretary of the Board of Directors of the Bank; appointing or removing senior management, including vice presidents, assistants to the president and finance officers of the Bank, based on the recommendations of the president; and deciding on matters relating to their emoluments and awards or punishment;
12. establishing the basic management system of the Bank;
13. formulating proposals for any amendment to our Articles of Association;
14. managing the disclosure of information of the Bank;
15. proposing the appointment or replacement of accounting firms to the Shareholders' general meetings for the auditing of the Bank;
16. reviewing working reports of the president of the Bank and examining the performance of the president;
17. formulating capital replenishment plans;
18. formulating medium and long term incentive plans, such as equity incentive plans and employee stock ownership plans;
19. exercising any other functions and powers prescribed by the laws, administrative regulations, departmental rules and our Articles of Association and authorized by the Shareholders' general meetings.

2.2.4 Director's Responsibility for the Preparation of the Financial Statements

The Directors acknowledge that they are responsible for the preparation of the financial statements of our Bank for the year ended December 31, 2017, which give a true and fair view of the state of affairs and results of the Bank. In doing so, the Directors opted for suitable accounting policies and applied them consistently and used accounting estimates as appropriate in the circumstances. With the assistance of the accounting and finance staffs, the Directors ensured that the financial statements of the Bank are prepared in accordance with statutory requirements and appropriate financial reporting standards. The statement of the external auditors with regard to their reporting responsibilities on the Group's financial statements is set out on page 156 to page 163 in the Independent Auditors' Report.

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2.2.5 Meetings of the Board of Directors and the Directors' Attendance

During the Reporting Period, LI Qiaocheng, a Director, did not attend the extraordinary general meeting of the Bank, CHAN Ngai Sang Kenny, a Director, did not attend the extraordinary general meetings due to approval of his qualification for appointment during the Reporting Period, and all other Directors have attended the annual general meeting and the extraordinary general meetings of the Bank.

During the Reporting Period, our Bank held 7 board meetings, which considered and approved 54 resolutions.

The details of the board meetings are set out below:

Session of meeting	Date of meeting	Form of meeting
The 16th meeting of the first session of the Board	January 16, 2017	On-site
The 17th meeting of the first session of the Board	March 12, 2017	On-site
The 18th meeting of the first session of the Board	June 23, 2017	On-site
The 19th meeting of the first session of the Board	August 29, 2017	On-site
The 20th meeting of the first session of the Board	October 26, 2017	Circulation of written proposal
The 21st meeting of the first session of the Board	December 25, 2017	Circulation of written proposal
The 22nd meeting of the first session of the Board	December 28, 2017	On-site

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The attendance of each Director at the board meeting during the Reporting Period is set out below:

Members of the Board	Required attendance of the meeting	Attendance in person	Attendance by proxy	Attendance ⁽¹⁾
Mr. DOU Rongxing	7	7	0	100%
Ms. HU Xiangyun	7	7	0	100%
Mr. WANG Jiong	7	7	0	100%
Mr. HAO Jingtao	7	7	0	100%
Mr. ZHANG Bin ⁽²⁾	6	6	0	100%
Mr. LI Qiaocheng ⁽³⁾	5	4	1	100%
Mr. LiXipeng	7	7	0	100%
Mr. LI Hongchang	7	7	0	100%
Ms. PANG Hong	7	6	1	100%
Mr. JIA Tingyu	7	7	0	100%
Mr. CHAN Ngai Sang Kenny ⁽⁴⁾	5	5	0	100%

Note:

1. Proxy is deemed as attendance.
2. Mr. ZHANG Bin resigned as an executive Director of the Bank on December 26, 2017.
3. Mr. LI Qiaocheng was appointed as an executive Director of the Bank on March 22, 2017.
4. Mr. CHAN Ngai Sang Kenny was appointed as an executive Director of the Bank on May 15, 2017.

Independent Non-Executive Director

The Board of the Bank currently has 4 independent non-executive Director, which complies with the relevant requirements under the Hong Kong Listing Rules.

Independent non-executive Directors of the Bank faithfully carry out their duties in accordance with the relevant applicable laws and the Articles of Association, to safeguard the interests of the Bank as a whole, and particularly ensure that the legitimate rights and interests of depositors and minority shareholders of the Bank are not prejudiced. Independent non-executive Director performs the duties and responsibilities independently, without any interference by controlling shareholders or de facto controllers of the Bank, or other entities or individuals who have a material interest in the Bank. The Bank has received from each of the independent non-executive Directors an annual confirmation letter of independence pursuant to the requirements under the Hong Kong Listing Rules, which confirmed their independence in written, therefore, the Bank confirms that all the independent non-executive Directors have complied with the requirements under the Listing Rules in respect of their independence.

The independent non-executive Directors of the Bank have not raised any objections to the resolutions passed at the Board meetings or other meetings during the Reporting Period.

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2.3 Committees Under the Board

During the Reporting Period, Our Bank currently has 5 special committees under the Board, which are the Strategy and Development Committee, the Audit Committee, the Related Party Transactions Control Committee, the Risk Management Committee, and the Nomination and Remuneration Committee, and one standing committee, which is the Executive Committee. Each special committee shall be accountable to the Board, which provides professional opinions to the Board or makes decisions for the professional matters as per the authorization of the Board.

On March 16, 2018, the second session of the Board of our Bank established 6 special committees, i.e. the Strategy and Development Committee, the Audit Committee, the Related Party Transactions Control Committee, the Risk Management Committee, the Nomination and Remuneration Committee and the Consumer Rights Protection Committee, and one standing committee, i.e. the Executive Committee. The composition of each committee after adjustment is:

The Strategy and Development Committee: Mr. DOU Rongxing (chairman), Mr. WANG Jiong, Mr. WEI Jie, Mr. LI Qiaocheng, Mr. LI Xipeng, Mr. MI Hongjun and Mr. JIA Tingyu;

The Audit Committee: Mr. CHAN Ngai Sang Kenny (chairman), Ms. PANG Hong, Mr. LI Hongchang and Mr. JIA Tingyu;

The Related Party Transactions Control Committee: Mr. LI Hongchang (chairman), Mr. WANG Jiong, Mr. WEI Jie, Mr. JIA Tingyu and Mr. Chan Ngai Sang Kenny;

The Risk Management Committee: Mr. JIA Tingyu (chairman), Mr. WANG Jiong, Mr. WEI Jie, Mr. LI Yulin, Ms. PANG Hong and Mr. LI Hongchang;

The Nomination and Remuneration Committee: Ms. PANG Hong (chairman), Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Hongchang and Mr. JIA Tingyu;

The Consumer Rights Protection Committee: Mr. WANG Jiong (chairman), Mr. LI Yulin, Mr. LI Hongchang and Mr. CHAN Ngai Sang Kenny;

The Executive Committee: Mr. DOU Rongxing (chairman), Mr. WANG Jiong, Mr. WEI Jie, Mr. LI Yulin and three senior management members (excluding those who are also Directors), being Mr. LIU Kai, Mr. ZHAO Weihua and Mr. ZHOU Litao.

The appointment of Mr. WEI Jie, Mr. LI Yulin and Mr. MI Hongjun are subject to the approval by the relevant banking regulatory authorities in the PRC. Please refer to announcement published by our Bank on March 16, 2018 for details of changes.

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2.3.1 Strategy and Development Committee

During the Reporting Period, the Strategy and Development Committee consists of 6 Directors, being Mr. DOU Rongxing, Ms. HU Xiangyun, Mr. WANG Jiong, Mr. Zhang Bin, Mr. HAO Jingtao and Mr. LI Xipeng. Mr. DOU Rongxing is the Chairman. Mr. Zhang Bin resigned as a member of the Strategy and Development Committee on December 26, 2017. After listing, the primary duties of the Strategic Development Committee include the following:

1. studying and providing advice on our mid-term and long-term development strategies;
2. supervising, inspecting and evaluating the implementation of our development strategies;
3. providing advice on the adjustment of our development strategies according to variations of operational environment;
4. supervising and inspecting the implementation of our annual operational plans and investment plans;
5. studying and providing advice on the development of information technology and other specialized development strategies of our Bank;
6. studying and formulating strategies and policies of the social responsibilities of our Bank;
7. studying and implementing other significant matters of development strategies of our Bank.

During the Reporting Period, the Strategy and Development Committee under the Board has convened one meeting, all members have participated on-site and considered the “Resolution on the Strategic Planning of Interconnection between Investment of Zhongyuan Bank Co., Ltd.”.

2.3.2 Audit Committee

During the Reporting Period, the Audit Committee consists of 4 Directors, being Mr. CHAN Ngai Sang Kenny, Mr. LI Hongchang, Ms. PANG Hong and Mr. JIA Tingyu. Mr. CHAN Ngai Sang Kenny is the Chairman. After listing, the primary duties of the Audit Committee include the following:

1. conducting inspections on our compliance, accounting policies, financial reporting procedures as well as our financial wellbeing;
2. organizing and leading our annual audit work;
3. advising on the engagement or change of external auditors;
4. ensuring the truthfulness, accuracy and completeness of the financial reports during the audit process and submitting them to the Board of Directors for review;

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5. conducting inspections on our internal control system;
6. performing other responsibilities in accordance with applicable laws and regulations;
7. performing other responsibilities as authorized by our Board of Directors.

During the Reporting Period, the Audit Committee has convened three meetings. Pang Hong, a member, entrusted Li Hongchang, a member, to attend and vote on her behalf once. The remaining members have attended and considered 9 resolutions, including “Resolution on the Final Financial Accounts for 2016”, and met with external auditor for communication and interaction in the absence of the executive Directors and the senior management of the Bank. The Audit Committee also organized the preparation and review of the 2016 annual report and 2017 interim report according to relevant disclosure requirements on the annual financial report. On March 23, 2018, the 1st meeting of the Audit Committee of the second session of the Board has audited the audit financial statement for the year ended December 31, 2017. This statement was prepared pursuant to the international accounting standards and policies. It also reviewed the effectiveness of the internal control system and the Bank’s internal audit function by regularly receiving the internal audit work report from our internal audit department.

2.3.3 Related Party Transactions Control Committee

During the Reporting Period, the Related Party Transactions Control Committee consists of 5 Directors, being Mr. LI Hongchang, Ms. PANG Hong, Mr. JIA Tingyu, Ms. HU Xiangyun and Mr. HAO Jingtao. Mr. LI Hongchang is the Chairman. After listing, the primary duties of the Related Party Transactions Control Committee include the following:

1. managing our related party transactions and formulating internal policies in accordance with relevant laws and regulations;
2. identifying our related parties and reporting to the Board and the Board of Supervisors according to relevant laws and regulations;
3. determining and reviewing our related party transactions in accordance with relevant laws and regulations;
4. submitting significant related party transactions to the Board for approval, and submitting related party transactions exceeding the authorization of the Board to the Shareholders’ general meeting for approval;
5. reviewing disclosure of significant related party transactions;
6. performing other responsibilities as authorized by the Board.

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During the Reporting Period, the Related Party Transactions Control Committee has convened five meetings, which considered 6 resolutions, including “Resolution on the Lists of the Connected (Related) Parties of Zhongyuan Bank Co., Ltd.”. Among which, PANG Hong, a member, entrusted Mr. LI Hongchang, a member, to attend and vote once, while HU Xiangyun, a member, entrusted HAO Jingtao, a member, to attend and vote once.

2.3.4 Risk Management Committee

During the Reporting Period, the Risk Management Committee consists of 6 Directors, being Mr. WANG Jiong, Mr. Zhang Bin, Mr. HAO Jingtao, Mr. LI Hongchang, Ms. PANG Hong and Mr. JIA Tingyu. Mr. WANG Jiong is the Chairman. Mr. Zhang Bin resigned as a member of the Risk Management Committee of the Bank on December 26, 2017. After listing, the primary duties of the Risk Management Committee include the following:

1. supervising our control over credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk, and legal and compliance risk;
2. studying the macroeconomic policies, analyzing market changes and advising on the industry risk management;
3. conducting periodic evaluation upon our risk management policies, management status as well as risk tolerance capabilities and advising on our risk management and internal control improvement;
4. studying risk prevention solutions for significant risk events incurred in our operation and management;
5. performing other responsibilities as authorized by the Board of Directors.

During the Reporting Period, the Risk Management Committee has convened one meeting, which considered 7 resolutions, including “Resolution on the Comprehensive Risk Analysis Report of Zhongyuan Bank Co., Ltd. for 2016”. Ms. PANG Hong entrusted Mr. LI Hongchang, a member, to attend and vote. The Risk Management Committee reviewed risk management systems of our Bank by regularly receiving from our senior management the report on the risk management of our Bank, including credit risk, market risk, operational risk, compliance risk, liquidity risk, information technology risk and reputation risk, etc. Based on the economic development trends, the changes in macro-economic

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regulation and control and our Bank's actual operational development, the Risk Management Committee will give opinions and suggestions to improve our Bank's risk management system, and supervise the senior management to improve the risk management workflow.

2.3.5 Nomination and Remuneration Committee

During the Reporting Period, the Nomination and Remuneration Committee consists of 5 Directors, being Ms. PANG Hong, Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Hongchang and Mr. JIA Tingyu. Ms. PANG Hong is the Chairman. After listing, the primary duties of the Nomination and Remuneration Committee include the following:

Nomination Duties:

1. reviewing the structure, size and composition of the Board annually, and advising on any changes of the Board proposed in accordance with the strategies of our Bank;
2. formulating the criteria and procedures for selecting Directors and senior management members, and making recommendations to the Board;
3. extensively identifying qualified candidates for Directors and senior management members, and making recommendations to the Board;
4. conducting the preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board on the selection; and
5. assessing the independence of independent non-executive Directors.

Remuneration and Appraisal Duties:

1. contemplating the criteria for appraising Directors and senior management members, conducting the appraisal, and submitting the appraisal reports to the Board;
2. reviewing the system and policy of our remuneration management, contemplating and reviewing the policy and plan for all Directors' and senior management's remuneration and contemplating the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board;

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3. reviewing and approving compensations payable to Directors and senior management members for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
4. reviewing and approving compensation arrangements relating to dismissal or removal of any Director for his misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate.

During the Reporting Period, the Nomination and Remuneration Committee has convened three meetings, which considered 5 resolutions, including “Administrative Measures for the Performance Appraisal of Senior Management in the Head Office”. PANG Hong entrusted Mr. LI Hongchang, a member, to attend and vote.

The Board believes that the increasing diversity at the Board level is the key factor for the Bank to achieve its sustainable development, support fulfilling its strategic objectives and maintain good corporate governance. The Board diversity policy of the Bank specifies that in designing the composition the Board, board diversity shall be considered from several aspects, including but not limited to gender, regional and industrial experiences, skills, knowledge and educational background. All Board members’ appointment will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard to the benefits of diversity of the Board. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, regional and industrial experiences, skills, knowledge and educational background.

Our Nomination and Remuneration Committee is responsible for reviewing the structure, size and composition of the Board annually, determining the policy for the remuneration of directors, assessing performance of executive directors and approving the terms of executive directors’ service contracts and making recommendations on the remuneration packages of individual executive directors and senior management to the Board.

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2.3.6 The Consumer Rights Protection Committee

The meeting of the Board of the Bank was held on March 16, 2018 to confirm the establishment of the Consumer Rights Protection Committee as the committee under the Board comprising of Mr. Wang Jiong as chairman of the committee as well as Mr. Li Yulin, Mr. Li Hongchang and Mr. Chan Ngai Sang Kenny as member of the committee, among whom Mr. Li Yulin shall perform his duty subject to the approval on his qualification of Director by the banking regulatory authority. No meeting of the committee was held in 2017 due to its establishment after the reporting period.

Main duties of the Consumer Rights Protection Committee:

1. to formulate the Bank's strategies, policies and objectives of consumer protection, to incorporate consumer protection into corporate governance and business development strategies; and to guide the senior management to reinforce in overall planning the construction of a corporate culture enabling consumer protection;
2. to supervise the management to effectively implement relevant work of consumer protection, to receive special reporting from the senior management on the Bank's consumer protection work on a regular basis, to deliberate and adopt relevant special reports;
3. to supervise and evaluate the Bank's consumer protection work regarding its comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties;
4. in accordance with the Bank's overall strategy, to deliberate proposals on consumer protection for the consideration of the Board of Directors, and make recommendations to the Board of Directors;
5. to provide periodic reports to the Board;
6. other matters as required by laws and regulations, Articles, and the Board of Directors.

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2.3.7 Executive Committee

During the Reporting Period, the Executive Committee consists of 4 Directors, being Mr. DOU Rongxing, Ms. HU Xiang Yun, Mr. WANG Jiong and Mr. HAO Jingtao, and two senior management members (excluding those who are also Directors), being Mr. LIU Kai and Mr. ZHAO Weihua. DOU Rongxing is the Chairman. After listing, the primary duties of the Executive Committee include the following:

1. thoroughly implementing the Board's decisions on our development strategies, business plans, investment proposals and etc.;
2. considering any single significant equity investment or disposal of less than 5% of our latest audited net asset value and handling relevant matters;
3. considering any single significant asset acquisition or disposal of less than 5% of our latest audited net asset value and handling relevant matters;
4. reviewing annual authorization plans relating to business, personnel, and financial affairs, and reviewing our operational and management systems and code of business conduct;
5. determining establishment of internal management organizations under the Board's authorization, formulating general layout plans, and determining establishment of our branches according to the Board's decision;
6. reviewing appointment and dismissal proposals of heads of internal management institutions and branches;
7. preparing and formulating our medium and long term incentive schemes and implementation proposals, remuneration systems and policies;
8. consider the plan for the appointment and dismissal of candidates for the senior management; and
9. other responsibilities as stipulated by the Articles or delegated by the Board.

2.4 Board of Supervisors

The Board of Supervisors shall be the supervisory authority of the Bank, with the target of safeguarding the legitimate interests of the Bank, the Shareholders, staff, depositors and other stakeholders, and is responsible for supervising the account activities, risk management, internal control of the Bank, as well as the performance appraisal of the Board, the Directors, the senior management and their members of the Bank, and shall be accountable to the Board.

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2.4.1 Composition of Board of Supervisors:

The Board of Supervisors of the Bank consists of 9 Supervisors, which shall have three Shareholder representative supervisors, Employee representative supervisors and External supervisors respectively. The structure of the members of the Board of Supervisors is reasonable, with sufficient expertise and independence, which is able to ensure that the Board of Supervisors exert the supervisory functions effectively.

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

The fifth meeting of the first session of the employee representative meeting of the Bank elected Mr. HAO Jingtao, Ms. Jia Jihong and Mr. Zhang Yixian as employee representative Supervisors of the second session of the Board of Supervisors of the Bank on March 6, 2018, re-elected Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin as Shareholder representative Supervisors at the first extraordinary general meeting in 2018 of the Bank, and re-elected Mr. LI Xiaojian, Mr. HAN Wanghong and Mr. SUN Xuemin as external Supervisors. Please refer to announcements of the Bank dated January 20, 2018, March 6, 2018 and March 16, 2018 and the circular dated February 22, 2018 for details of changes in Supervisors.

2.4.2 Board of Supervisors Exercises the Following Functions and Powers:

1. to examine our financial activities;
2. to supervise the behaviors of the Directors and senior management personnel in their performance of their duties in our Bank and to propose the removal of directors and senior management personnel who have violated laws, administrative regulations, our Articles of Association or resolutions of the Shareholders' general meetings;
3. when the acts of a Director, president or senior management personnel of the Bank are detrimental to its interests, to require the aforementioned persons to correct these acts;

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4. to examine financial information such as financial reports, business reports and profit distribution plans proposed to be submitted to the Shareholders' general meeting by the Board, to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals from accountant firms or law firms etc. if necessary to assist its duties at the expenses of the Bank;
5. to negotiate with a Director or bring actions against a Director on behalf of our Bank;
6. to propose the convening of extraordinary Shareholders' general meetings and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meetings under the PRC Company Law;
7. to propose the convening of provisional board meetings and to submit proposals to the Shareholders' general meetings;
8. to exercise any other authorities as authorized by our Articles of Association or the Shareholders' general meetings.

The Board of Supervisors of the Bank performs its duties mainly through, including, convening regular Supervisors' meetings, attending general meetings, to be in-attendance at the Board's meetings, to be in-attendance at the relevant meetings of the senior management, reviewing various documents and materials from the senior management, receiving the work report and project report of the senior management, evaluating the annual performance of Directors and the senior management, conducting study and research on branch institutions, carrying out a variety of special investigations, etc. Through the above work, the Board of Supervisors monitors and evaluates our operation and management, risk management and internal control, as well as the performance of Directors and the senior management. During the Reporting Period, the Board of Supervisors supervised the performance of the Board of Directors, the Directors, the senior management and their members of the Bank, and gave feedback to the Board of Directors and the senior management.

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2.4.3 Meetings of the Board of Supervisors and Attendance of Supervisors

During the Reporting Period, the Bank has held six meetings of the Board of Supervisors, which considered and approved 22 resolutions.

The following are the details of meetings of the Board of Supervisors:

Session of meeting	Date of meeting	Form of meeting
The 9th meeting of the first session of the Board of Supervisors	January 16, 2017	On-site
The 10th meeting of the first session of the Board of Supervisors	March 12, 2017	On-site
The 11th meeting of the first session of the Board of Supervisors	April 6, 2017	On-site
The 12th meeting of the first session of the Board of Supervisors	June 23, 2017	On-site
The 13th meeting of the first session of the Board of Supervisors	August 29, 2017	On-site
The 14th meeting of the first session of the Board of Supervisors	December 21, 2017	On-site

The attendance of each Supervisor at the meetings of Board of Supervisors during the Reporting Period is set out below:

Members of the Board	Required attendance			
	of the meeting	Attendance in person	Attendance by proxy	Attendance
Mr. MA Guoliang ⁽¹⁾	6	6	0	100%
Ms. JIA Jihong ⁽²⁾	4	4	0	100%
Mr. SI Quan ⁽¹⁾	6	6	0	100%
Mr. ZHAO Ming	6	4	2	100%
Ms. LI Weizhen	6	5	1	100%
Mr. LI Wanbin	6	4	2	100%
Mr. LI Xiaojian	6	6	0	100%
Mr. HAN Wanghong	6	6	0	100%
Mr. SUN Xuemin	6	6	0	100%

Note:

1. Mr. MA Guoliang and Mr. Si Quan resigned as employee supervisors of the Bank on 16 March 2018.
2. Ms. JIA Jihong was elected as an Employee representative supervisor on March 20, 2017.

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2.4.4 Attendance at General Meetings During the Reporting Period

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

2.4.5 Attendance at the Meetings of the Board During the Reporting Period

During the Reporting Period, the Supervisors attended physical meetings of the Board of Directors, and supervised legal compliance of the meetings and procedures of voting as well as the attendance, speech and voting of Directors.

2.5 Committees under the Board of Supervisors

2.5.1 Nomination Committee and Supervision Committee under the Board of Supervisors

As confirmed by the election of the Board of Supervisors of the Bank convened on March 16, 2018, there were a total of 6 members in the Nomination Committee of the Board of Supervisors, including Mr. HAN Wanghong, Mr. HAO Jingtao, Ms. JIA Jihong, Mr. Zhang Yixian, Mr. LI Xiaojian and Mr. SUN Xuemin. The chairman was acted by Mr. HAN Wanghong, an external supervisor. There were a total of 9 members in the Supervision Committee of the Board of Supervisors, including Mr. LI Xiaojian, Mr. HAO Jingtao, Ms. JIA Jihong, Mr. Zhang Yixian, Mr. HAN Wanghong, Mr. SUN Xuemin, Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin. The chairman was acted by Mr. LI Xiaojian, an external supervisor.

2.5.2 Nomination Committee

During the Reporting Period, there were a total of 6 members in the Nomination Committee of the Board of Supervisors, namely Mr. HAN Wanghong, Mr. MA Guoliang, Ms. JIA Jihong, Mr. SI Qun, Mr. LI Xiaojian and Mr. SUN Xuemin. The chairman was acted by Mr. HAN Wanghong, an external supervisor. The major duties and responsibilities of the Nomination Committee were:

1. making recommendations to the Supervisors on the scale and composition of the Board of Supervisors;
2. studying into the standard and procedures of selection of Supervisors and making recommendations to the Supervisors;
3. identifying extensively qualified candidates for supervisors;
4. conducting preliminary review on the qualification and conditions of candidates proposed by Directors and making recommendations;
5. studying and formulating the remuneration policy and plans of Supervisors, and submitting to the Shareholders' general meetings for approval upon review by the Board of Supervisors;
6. any other matters authorized by the Board of Supervisors.

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During the Reporting Period, the Nomination Committee convened a total of 1 meeting, at which the “Resolution on the Nomination of Ms JIA Jihong as the Employees Representative Supervisor of the First Session of the Board of Supervisors of Zhongyuan Bank Co., Ltd.” was considered and approved with all the members present at the meeting of the Nomination Committee.

2.5.3 Supervision Committee

During the Reporting Period, there were a total of 9 members in the Supervision Committee, namely Mr. LI Xiaojian, Mr. MA Guoliang, Ms. JIA Jihong, Mr. SI Qun, Mr. HAN Wanghong, Mr. SUN Xuemin, Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin. The chairman was acted by Mr. LI Xiaojian, an external supervisor. The major duties and responsibilities of the Supervision Committee are:

1. formulating plans for supervision of financial activities of the Bank and making relevant recommendations to the Board of Supervisors;
2. supervising the Board of Directors to adopt prudent business philosophy and value standards and formulating development strategies in line with the actual situations of the Bank;
3. monitoring and reviewing the operation strategy, risk management and internal control of the Bank;
4. any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Supervision Committee convened a total of 1 meeting, at which 8 resolutions in relation to the “2016 Annual Report of Zhongyuan Bank Co., Ltd.” were considered and approved with all the members present at the meeting of the Supervision Committee.

2.6 Senior Management

The senior management, as the executive body of the Bank, is accountable to the Board and supervised by the Board of Supervisors. The division of authority between the senior management and the Board of Directors is implemented in accordance with the Articles of Association and other corporate governance documents of the Bank. The Bank has one President and several vice presidents and assistants to the president appointed or dismissed by the Board of Directors. The President shall be accountable to the Board of Directors. The senior management has the power as authorized by the Board of Directors of the Bank to manage the daily operation of the Bank. The President of the Bank is mainly responsible for implementing decisions made by the Board of Directors of the Bank and is required to report to the Board of Directors of the Bank.

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The Board of Directors of the Bank together with the senior management, represented by the President, will discharge their respective duties in accordance with the terms of reference set out in the Articles of Association. According to the Articles of Association, the senior management of the Bank shall build a sound internal control mechanism which contains principal content as to internal rules and system, operation of risk management system and credit approval system based on the needs of the operation activities, and shall effectively identify, measure, monitor and control the risks that the Bank faces with.

2.6.1 Chairman and President

During the Reporting Period, the roles and duties of the Chairman and the President of the Bank are taken up by different individuals and there is a clear division of duties and responsibilities in compliance with the recommendations of the Listing Rules.

As at the end of the Reporting Period, Mr. DOU Rongxing acted as the Chairman, responsible for the general work of the Party Committee and the Board of Directors, and administered the human resources department. Mr. WANG Jiong acted as the President of the Bank, responsible for the general work of operation and management of the Bank, and administered the planned financial department, strategic development department and information technology department, and jointly administered the human resources department.

2.7 Relationship among Directors, Supervisors and Senior Management

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

2.8 Training and by Directors and Supervisors during the Reporting Period

Training and by Directors:

All the Directors have attended the training with respect to the relevant laws and regulations upon listing of H Share as given by Paul Hastings.

During the Reporting Period, the Board conducted a research on branches in which part of our Directors participated.

Training and Research by Supervisors:

All the Supervisors have attended the training with respect to the relevant laws and regulations upon listing of H Shares as given by Paul Hastings.

During the Reporting Period, the Board of Supervisors conducted research work in Grameen model of poverty alleviation at Lankao sub-branch and conducted research work on the business development of new organizations, such as Luoyang branch

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2.9 Amendments to the Articles of Association

Pursuant to applicable PRC laws and regulations and the requirements of the Listing Rules, the Bank has made amendments to the Articles of Association, which became effective upon listing of the Bank on Hong Kong Stock Exchange on July 19, 2017 and the resolutions of which were considered and passed by the shareholders on the First Extraordinary Meeting 2017 held on February 2017. The Bank obtained approval for amendments to the Articles of Association from CBRC Henan Office in respect of approval for amendments to the Articles of Association on March 23, 2017.

The Bank also amended the Articles of Association in respect of the Bank's registered capital amount according to the authorization from the general meeting saved as disclosed above, there is no material change to the Articles of Association as of the end of the Reporting Period. Copies of the Articles of Association are available at the Bank and the website of Hong Kong Stock Exchange.

In connection with the proposed non-public issuance of the offshore preference shares by the Bank, pursuant to relevant laws, regulations and regulatory documents and to satisfy the corporate governance measures of the Bank which require compliance with relevant laws and regulations, taking into account the plan for the non-public issuance of the offshore preference shares and the actual conditions of the Bank of having multiple Shares classes after the issuance of the offshore preference shares, the Bank has proposed certain amendments to the Articles of Association in connection with the non-public issuance of the offshore preference shares. The aforementioned amendments to the Articles of Association have been approved by the Shareholders at the 2018 first extraordinary general meeting, first domestic shareholders class meeting of 2018 and first H shareholders class meeting of 2018. The aforementioned amendments to the Articles of Association will subject to the approval by the China banking regulatory authority(ies) and will take effect on the date of issuance of the first tranche of the offshore preference shares.

Further, in accordance with the Constitution of the Communist Party of China (《中國共產黨章程》) and the Guidelines of the General Office of the CBRC on Enhanced Protection of Consumer Rights and Interests and Measures Dealing With Public Concern in the Banking Industry (《中國銀監會辦公廳關於加強銀行業消費者權益保護解決當前群眾關切問題的指導意見》) as well as other relevant laws, regulations and regulatory documents and with reference to the industry experience, the Bank has proposed certain amendments to the Articles of Association. The aforementioned amendments to the Articles of Association have been approved by the Shareholders at the 2018 first extraordinary general meeting, and will become effective upon approval by the China banking regulatory authority(ies).

Chapter 8 Corporate Governance Report

2.10 Company Secretary under the Listing Rules

The Bank appointed Mr. Zhang Ke and Ms. Leung Wing Han Sharon, a vice president of SW Corporate Services Group Limited, as the joint company secretaries. The major associate of Ms. Leung in the Company is Mr. Zhang Ke, the other joint company secretary. Both Ms. Leung Wing Han Sharon and Mr. Zhang Ke have been in compliance with Rule 3.29 of the Listing Rules that they received at least 15 hours of relevant professional training for the year ended December 31, 2017.

2.11 Communication with Shareholders

2.11.1 Investors Relationship

The Bank attaches importance to communication with Shareholders, for which it formulated Measures on Management of Investors Relationship of Zhongyuan Bank Co., Ltd., and seeks to improve mutual understanding and communication with Shareholders through various channels including general meeting, roadshows and press conference and enhance communication with Shareholders via the official website, e-mail and telephone.

For enquiries to the Board, investors may contact: The Office of Board of Directors and Supervisors of Zhongyuan Bank Co., Ltd.

Address: Room 2625, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, PRC

Telephone no: +86-371-85517898

Fax no.: +86-371-85517892

e-mail: Dongjianban@zybank.com.cn

Chapter 8 Corporate Governance Report

2.11.2 Information Disclosure

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

In accordance with the requirements of the Listing Rules, Measures for the Information Disclosure of Commercial Banks and Measures for the Information Disclosure of Zhongyuan Bank Co., Ltd., the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the Reporting Period, the full version of the relevant annual reports is available on the website of the Bank. Meanwhile, the Chinese and English versions of the annual report are available for review by the investors and stakeholders in Board of Director's office of the Bank.

2.11.3 Shareholders' Rights

Procedure for Shareholders to Convene Extraordinary General Meeting

The Bank strictly complies with the applicable laws and regulations, the Listing Rules, the Articles of Associations and the corporate governance system, for practically safeguarding the rights of the Shareholders. Pursuant to the requirements under the Articles of Associations and the rules of procedures of the general meeting: the shareholders who individually or jointly hold more than 10% of the shares make a written request to the Board to convene an extraordinary general meeting or class meeting, and to illustrate the subject of the meetings. In respect of such proposal, the Board shall, in accordance with the laws, administrative regulations and the Articles of Association, make a written response as to whether or not it agrees to convene the extraordinary general meeting or class meeting within 10 days of receiving the proposal. The shareholding of the above Shareholders is based on their shareholdings on the date of such request is proposed to the Board in writing. If the Board agrees to convene an extraordinary general meeting or a separate class meeting, the Board shall deliver a notice of convening a General meeting or a separate class meeting within five days from the adoption of the resolution of the Board. Any change to the original request in the notice shall be made with the consent of relevant shareholders. Where the Board disagrees to convene an extraordinary general meeting or a separate class meeting or fails to give any feedback within ten days after the receipt of such request, shareholders individually or joint holding 10% or more of shares are entitled to propose to the Board of Supervisors to convene an extraordinary general meeting or a separate class meeting by submitting a request in writing. Where the Board of Supervisors agrees to convene an extraordinary general meeting or a separate class meeting, it shall, within five days after the receipt of such request, deliver a notice of convening an extraordinary general meeting or a separate class meeting. Any change to the original request in the notice shall be made with the consent of relevant shareholders. In the event that the Board of Supervisors fails to deliver such notice to convene an extraordinary general meeting or a separate class meeting within the specified period, the Board shall be deemed not to convene or preside over such aforesaid meeting. Such shareholders individually or in aggregate holding 10% or more of the Bank's voting shares for at least 90 consecutive days may at their discretion convene and preside over such aforesaid meeting. Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for further details.

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Procedure of Proposing a Resolution at the General Meeting

Shareholders individually or in aggregate holding 3% of more of the Bank's voting shares may propose an interim proposal and submit it to the convener before ten days of the General meeting. The convener shall review such proposal, issue a supplemental notice of the General meeting and announce the proposal if it satisfies the provisions as otherwise specified in the Articles of Association within two days after receiving the proposal. If the Hong Kong Listing Rules specifies otherwise, the procedures of submitting a proposal to the General meeting shall follow such provisions. Except as provided in the precedent paragraph, the convener shall not alter the proposals in the notice of the General meeting or add new proposals after the issuance of the notice of the General meeting. Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for further details.

2.12 External Auditors and Auditor's Remuneration

The Bank engaged KPMG and KPMG Huazhen LLP to act as domestic auditor and international auditor, respectively, at the 2016 annual general meeting convened by the Bank on April 6, 2017.

In 2017, the remuneration agreed to be paid by the Bank to KPMG Huazhen LLP and KPMG for the audit of financial statements was RMB3.98 million in aggregate.

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

2.13 Risk Management

Procedures for identification, assessment and management of material risks

Based on the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and its schedules issued by the CBRC, risks and relevant terminology defined by the Basel Committee, practice of the domestic and overseas peers as well as its own situation, the Bank identifies, measures and controls various overall quantitative and non-quantitative risks which may arise from the interaction between business strategies, product portfolios, client demands and the macro-economic environment. Taking into account the capital occupancy based on risk types, risks of banks determined by regulators and capital regulatory requirements together with results from identifying and assessing risk events, the Bank collects and publishes risk warnings, draws up risk event examples, identifies, collects and assesses risk events and then determines material risks for the purpose of identifying its material risks, which include credit risk, market risk, operational risk, liquidity risk, interest risk in bank accounts, compliance risk, legal risk and reputation risk, and subsequently making assessment and analysis on them with risk measurement approaches and techniques.

Chapter 8 Corporate Governance Report

Procedures for identification, assessment and management of material risks

In accordance with laws and regulations including the Overall Risk Management Guidelines for Commercial Banks (《商業銀行全面風險管理指引》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) as well as relevant requirements of the Hong Kong Stock Exchange, the Board of the Bank has formulated the Policies of Overall Risk Management in Zhongyuan Bank (《中原銀行全面風險管理政策》), Measures for Credit Exposure Management in Zhongyuan Bank (《中原銀行授信集中度管理辦法》), Basic Requirements for Internal Control of Measures for Risk Limit Management in Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司內部控制基本規定》). It not only established and implemented risk management and internal control system, but is also responsible for timely reviewing the effectiveness of such rules and system. The Board of the Bank is of the opinion that the risk management and internal control system established and implemented by the Bank is adequate and effective. The risk management and internal control system of the Bank is designed to manage the risk of failing to meet business targets rather than eliminating such risk, and only provides reasonable but not absolute assurance for not making material misstatement and losses. The Board shall guarantee a review of internal control and risk management system at least once a year.

2.14 Insider Information Management

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

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To ensure confidentiality of the Bank's inside information, safeguard the fairness in information disclosure and protect the legal rights of investors, the Bank enacted the Measures for Information Disclosure Management in Zhongyuan Bank Co., Ltd. (《中原银行股份有限公司信息披露管理办法》) based on domestic and overseas laws, regulations and other regulatory documents such as the Company Law of the People's Republic of China (《中华人民共和国公司法》), the Securities Law of the People's Republic of China (《中华人民共和国证券法》), Measures for Information Disclosure Management of Commercial Banks (《商業銀行信息披露管理办法》), SFO, and the Listing Rules. The Bank makes information disclosure and manages inside information in strict compliance with the regulatory requirements and specifies the principles, contents, management and procedures for information disclosure in the Measures for Information Disclosure Management in Zhongyuan Bank Co., Ltd., which also provides for the coverage, insider limits and the security management of inside information as well as punishment for divulging inside information, etc. During the Reporting Period, the Bank not only stringently complied with the regulatory requirements of domestic and overseas regulators, but also intensified its management rules and enhanced the security measures of its inside information as well as disclosing relevant information timely according to requirements.

2.15 Internal Control

2.15.1 Internal Control

Based on the principles of full coverage, checks and balance, prudence and compatibility, the Bank has established a relatively scientific and standardized internal control system in accordance with relevant laws and regulations, such as the Commercial Banking Law of the PRC (《中华人民共和国商业银行法》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), and the relevant requirements of the Hong Kong Stock Exchange, aiming to ensure the consistent compliance with relevant laws, regulations and rules of the PRC, the application of the Bank's development strategies and the accomplishment of its operating objectives, the accuracy and completeness of the Bank's financial information and other management information, and the effectiveness of the risk management of the Bank.

Chapter 8 Corporate Governance Report

The Bank insists in and continues to optimize the defense mechanism comprising of three lines for internal control. The first line of defense consists of various branches and operating units, which are the owners of, and are accountable for risks and controls, and have to undertake self-risk control functions in the course of their business operation, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organization of rectification measures. The second line of defense consists of the internal control and risk management departments at all levels, which are responsible for the overall planning, organizing and implementing, and examining and assessing of risk management and internal control. The third line of defense consists of the audit and supervision departments, which are responsible for performing internal audit on the adequacy and effectiveness of the internal control and risk management, taking disciplinary actions against staff in violation of regulations or disciplinary rules, carrying out case investigations and promoting management accountability.

During the Reporting Period, the Bank had followed on the principle of “prudential operation with risk-based supervision”. The Bank continued to improve internal control compliance and enhance the effectiveness of management tools for operational risks, develop and start to offer the information system for implementation of internal control, compliance and operational risk management, and to realize the effective integration of internal control management, compliance risk management and operational risk management. The Bank has established an internal control continuing evaluation system, which timely modified and improved its internal control system in accordance with the external laws and regulations, changes in the regulatory requirements and needs of business development, so as to provide a basis and support for the Bank’s operational management, business operations and effective risk prevention and control.

The Bank continued to promote the culture building of internal control compliance and actively organized compliance training courses and campaigns for all of its staff in the entire Bank, with a view to refine its long-term policy on compliance education, and continue to enhance the effectiveness of its internal control system through continuous organization of case study discussions, competitions on compliance knowledge, establishment of compliance specific area and compliance training courses and campaigns.

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2.15.2 Internal Audit

In accordance with the requirements of the Guidelines on Internal Audit of Commercial Banks (《商業銀行內部審計指引》), the Bank established an independent and vertical internal audit management system. As an executive body of the internal audit of the Bank, the Audit Department, Regional Audit Department I and Regional Audit Department II, they conscientiously perform their duties, regularly report to the Board and its Audit Committee and the Board of Supervisors on the progress of the audit work, and inform senior management in accordance with regulatory requirements and relevant system requirements.

During the Reporting Period, adhering to the principle of independence, objectivity and fair, the internal audit department of the Bank proposed the preparing of the mid-to-long-term audit plan, audit plan of the Bank, made arrangements for and implemented the audit of various business activities, operations and financial obligations of key staff members of the Bank during their tenure of service; inspected and evaluated the implementation of laws, regulations and rules, and suggested improvements to the management.

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

Chapter 9 Report of the Board of Directors

1. Principal Business

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

2. Business Review

2.1 Business Review of the Bank

The business review of the Bank during the Reporting Period was set out in “Chapter 5 – Management Discussion and Analysis - 9. Business Review” of this annual report.

2.2 Results

The results of the Bank for the year ended December 31, 2017 and the financial position of the Group as at that date are set out in the financial statements and notes section of this annual report.

2.3 Dividend

The Board of Directors has recommended the payment of a final dividend of RMB 0.71 (including tax) per ten shares for the year ended December 31, 2017 in cash. The total amount paid is approximately RMB1,425 million. The final dividend is subject to approval by shareholders at the upcoming 2017 annual general meeting of the Bank. If approved by the 2017 annual general meeting of the Bank, the final dividend is expected to be paid in on June 29, 2018.

2.4 Annual general meeting

The Bank proposes to hold the 2017 Annual General Meeting on May 16, 2018 (Wednesday). In order to determine the list of Shareholders who are entitled to attend and vote at the 2017 Annual General Meeting, the Bank's register of members will be closed from April 16, 2018 (Monday) to May 16, 2018 (Wednesday), both days inclusive, during which period no transfer of Shares will be effected. The Shareholders whose names appeared on the Bank's register of members on May 16, 2018 (Wednesday) shall be entitled to attend and vote at the 2017 Annual General Meeting. In order to be eligible to attend and vote at the 2017 Annual General Meeting, all transfer documents together with relevant share certificates and other appropriate documents shall be sent for registration to the office of the Board of the Bank at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan province, the PRC (for holders of Domestic Shares) or to the H Share Registrar, namely, Computershare Hong Kong Investor Services Limited, at Shops 1712– 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) before 4:30 p.m. on April 13, 2018 (Friday)

Chapter 9 Report of the Board of Directors

3. Tax on Dividends

Withholding foreign non-resident enterprise income tax

Pursuant to the applicable provisions and the implementing regulations of the Enterprise Income Tax of the PRC and the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises (Guoshuihan [2008] No. 897), when distributing the final dividend to non-resident enterprise holders of H Shares (including the H Shares registered in the name of HKSCC Nominees Limited), the Bank will withhold enterprise income tax at the rate of 10%. In case the relevant non-resident enterprise holders are actual beneficial owners who meet the requirements of the tax treaty (arrangement), the Bank will follow the Notice of Tax to handle the application of the relevant tax benefits on their behalf. The qualifying holders of H Shares are required to submit the written authorization and all application materials to the H Share Registrar, Computershare Hong Kong Investor Services Limited, in a timely manner; the Bank will forward the provided documents to the competent tax authorities for review, and if approved, thereafter the Bank will assist in handling the refund of the extra withholding tax;

Withholding foreign non-resident individual shareholder's individual income tax

Pursuant to the applicable provisions and the implementing regulations of the Enterprise Income Tax of the PRC and the Circular of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-resident taxpayers under Tax Treaties (SAT Circular [2015] No. 60) (the "Tax Treaty Circular"), when distributing the final dividend to non-resident enterprise holders of H Shares (including the H Shares registered in the name of HKSCC Nominees Limited), the Bank will withhold enterprise income tax at the rate of 10%.

For individual holder of H Shares who is a resident of Hong Kong, Macau or other country/region who are resident of a country or region that has signed a tax treaty with the PRC stipulating a dividend rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such H Shares when distributing the final dividend;

For individual holder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a dividend rate of lower than 10%, the Bank will temporarily withhold and pay individual income tax at the rate of 10% on behalf of such holders of H Shares while distributing the final dividend. In case the relevant holders of H Shares is to apply for refund of the extra withholding tax, the Bank will follow the Tax Treaty Circular to handle the application of the relevant tax benefits on their behalf. The qualifying holders of H Shares are required to submit the written authorization and all application materials to the H Share Registrar, Computershare Hong Kong Investor Services Limited, in a timely manner; the Bank will forward the provided documents to the competent tax authorities for review, and if approved, thereafter the Bank will assist in handling the refund of the extra withholding tax;

For individual holder of H Shares who is a resident of a country/region who has signed a tax treaty with the PRC stipulating a dividend rate higher than 10% but lower than 20%, the Bank will withhold the individual income tax at the applicable rate stipulated in the relevant tax treaty while distributing the final dividend;

Chapter 9 Report of the Board of Directors

For individual holder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a dividend rate of 20% or has no tax treaty with China or otherwise, the Bank will withhold the individual income tax at the rate of 20% while distributing the final dividend.

The Bank will generally follow the above arrangements to withhold and pay individual income tax on behalf of holders of H Shares, but if relevant tax authorities require otherwise, the Bank will follow such requirements for arrangements.

4. Exposure to Major Risks

Please refers to “Management Discussion and Analysis – 10. Risk Management” in this annual report for the major risks the Bank had been exposed to during the Reporting Period.

5. Future Development

A review of certain aspects of future development affecting the Bank is set out in “Management Discussion and Analysis – 1. Past Economy and Environment and Future Prospects” in this annual report.

6. Relationship between the Bank and its Major Employees and Suppliers

The Bank has been promoting a market-oriented human resources system and continually strengthen its incentive assessments, training, and other complementary mechanisms, and has adopted a distinctive training system that could serve different needs of various groups of employees, which is characterized with a multiple-level training structure. As a result, it managed to cultivate a highly qualified, aggressive and efficient workforce. The Bank also believes career planning of individual employees to be of great importance and have developed a clear career development path for different roles, which it believes could further encourage its employees to endeavor to maximize his or her value. In addition, the Bank’s concept of “people-oriented, performance-oriented (以人為本,業績導向)” exemplifies its corporate culture and best practice, creating an outlook and code of conduct for all employees of the Bank to follow.

The Bank’s labor union represents the interests of the employees and works closely with its management on labor-related issues. During the Reporting Period, the Bank has not experienced any material labor disputes that have affected its operation and the Bank believes that the relationship between its management and the labor union has been satisfactory.

The Bank has established long-term strategic cooperative relationships with a number of quality enterprises and medium and small enterprises focusing on technology innovation.

Chapter 9 Report of the Board of Directors

7. Share Capital

For details of the Bank's share capital, please refer to "Changes in Share Capital and Information on Shareholders - 1. Share Capital" in this annual report.

Rights

There are no provisions in the Articles of Association for Pre-emptive Rights and the relevant PRC laws for granting pre-emptive rights to Shareholders of the Bank.

8. Substantial Shareholders

Details of the Bank's substantial shareholders as at the end of the Reporting Period are set out in "Changes in Share Capital and Information on Shareholders - 2. Information on Shareholders" in this annual report.

9. Use of Proceeds

For details of issuance and listing of the Shares conducted by the Bank during the Reporting Period and use of proceeds of the Bank, please refer to the "Significant Events" in this annual report.

10. Property and Equipment

Details of the changes in property and equipment of the Bank for the year ended December 31, 2017 are set out in the Note 25 of the financial statement in this annual report.

11. Changes in the Reserves

For the year ended December 31, 2017, the details of changes in the reserves of the Bank are set out in the Consolidated Statement of Changes in Equity in the financial statement of the Bank.

12. Purchase, Sale and Redemption of the Listed Securities of the Bank

During the Reporting Period, other than the listing of the H Shares on the Hong Kong Stock Exchange, the Bank or any of its subsidiary had not purchased, sold or redeemed any listed securities of the Bank.

13. Retirement Benefits

Please refer to Note 35(b) in the financial statements in this annual report for details of the retirement benefits provided to employees of the Bank.

Chapter 9 Report of the Board of Directors

14. Major Customers

As at the end of the Reporting Period, the balance of the Bank's loans to any single borrower did not exceed 10% of the Bank's net capital. The interest income from the five largest customers of the Bank did not exceed 30% of the Bank's total interest income. None of the Directors of the Bank and their close associates or any Shareholder which to the knowledge of the Directors own more than 5% of the number of issued Shares had any interest in the above five largest customers.

15. Connected and Related Party Transactions

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

The details of the related party transactions conducted by the Bank in the ordinary and usual course of business during the Reporting Period are set out in note 42 to the financial statements. The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard, and its interpretations by the IASB. Certain related party transactions set out in the notes to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Listing Rules, but none of them constitutes any discloseable connected transaction as defined under the Listing Rules.

16. Interests of Directors and Supervisors in Business in Competition with the Bank

As of the date of this annual report, Mr. Li indirectly held 9.88% of the equity interests in Fanxian Rural Commercial Bank, a rural commercial bank established in Puyang, Henan Province, the PRC, through Henan Shengrun Group Co., Ltd., and Mr. Li has been a director of Fanxian Rural Commercial Bank since January 2017. Our Directors are of the view that, there is no competition or only minimal potential competition between Fanxian Rural Commercial Bank and our Bank arising from Mr. Li's interests and position in Fanxian Rural Commercial Bank for the following reasons: 1) Fanxian Rural Commercial Bank conducts its business mainly within Puyang, Henan Province, whereas the business of our Bank operates across all 18 provincial cities in Henan Province. Furthermore, Fanxian Rural Commercial Bank, as compared to our Bank, is of a smaller scale, thus the potential competition between Fanxian Rural Commercial Bank and our Bank is minimal; 2) Mr. Li serves as a non-executive director in both our Bank and Fanxian Rural Commercial Bank, and is not involved in the daily management of either our Bank or Fanxian Rural Commercial Bank; and 3) our Bank has appointed four independent non-executive Directors, representing more than one-third of the members of the Board to balance any potential conflict of interest in order to safeguard the interests of our Bank and the Shareholders as a whole. For details, please see the Prospectus.

Save as those disclosed in this annual report, none of the Directors or Supervisors of the Bank holds any interest in any business which competes or is likely to compete, whether directly or indirectly, with that of the Bank according to Rule 8.10.(2) of the Listing Rules.

Chapter 9 Report of the Board of Directors

17. Directors

Please see the section “Chapter 7 Directors, Supervisors, Senior Management and Employees” in this annual report for biographies of incumbent directors, as well as information on changes of Directors.

18. Directors’ and Supervisors’ Service Contracts

During the Reporting Period, the Directors and Supervisors of the Bank did not have service contracts which are not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

19. Permitted Indemnity Provisions

According to code provision A.1.8, the Bank shall maintain appropriate insurance to cover the potential legal litigations initiated against the Directors of the Bank. In order to comply with such code provision, the Bank has purchased appropriate liability insurance for the Directors and to provide indemnity for their liabilities incurred during the operations of the Bank for the year 2017.

Save as disclosed above, at no time during the Reporting Period and as of the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors or Supervisors (whether made by the Bank or otherwise) or the Directors or Supervisors of an associated corporation of the Bank (if made by the Bank).

20. Directors’ and Supervisors’ Material Interests in Transactions, Arrangements or Contracts

During the Reporting Period, the Bank or its subsidiary did not have any transaction, arrangement or contract of significance in which the Directors or Supervisors (or entities connected with the Directors or Supervisors) directly or indirectly were materially interested.

21. Arrangements to Purchase Shares or Debentures

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

22. Management Contracts

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

Chapter 9 Report of the Board of Directors

23. Directors', Chief Executive's and Supervisors' Interest in Shares of the Bank

As of the end of the Reporting Period, the Directors, Supervisors and the chief executive of the Bank and their associates had interests and short positions in the Shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules (See "Directors, Supervisors and Senior Management and Employees - 7. Interests and Short Positions of Directors, Supervisors and Senior Management in Shares, Underlying Shares and Debentures" in this annual report).

24. Corporate Governance

We are committed to maintaining high standards in corporate governance. Please refer to the "Chapter 8 Corporate Governance Report" in this annual report.

25. Public Float

Based on the information available in the public and so far as our directors concerned, as of the date of this annual report, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Listing Rules and the exemption granted by the Hong Kong Stock Exchange upon the Bank's listing.

26. Auditors

Please refer to the section "Corporate Governance Report – 2.12 External Auditors and Auditors' Remuneration" in this annual report for the information on the auditors of the Bank. The Bank has not changed its auditors since the Listing.

27. Equity Linked Agreement

During the Reporting Period, the Bank did not enter into or renew any other equity-linked agreement except for the H-share issuance on July 19, 2017 and the exercise of over-allotment option on August 15, 2017.

Chapter 9 Report of the Board of Directors

28. Proposed Issuance of Offshore Preference Shares

As approved at the Board meeting of the Bank on 20 January 2018, in order to improve the overall competitiveness of the Bank and to ensure continuous business development of the Bank, the Bank plans to conduct a non-public issuance of not more than 100,000,000 offshore preference shares to raise proceeds not exceeding RMB10 billion or its equivalent to replenish the Bank's additional tier-one capital. The issuance of the offshore preference shares by the Bank has been approved at the 2018 first extraordinary general meeting, the first domestic shareholders class meeting of 2018, and the first H shareholders class meeting of 2018, in each case, as a special resolution, and the execution is subject to the approval by or filing with competent regulators. Upon obtaining the relevant internal approvals and approval from or filing with the competent regulators in respect of the resolution on the issuance of offshore preference shares, the issue size, currency, issue price and other details will be determined by the Board with reference to the market condition and in accordance with relevant laws and regulations, listing rules of the relevant stock exchanges, market practice and the authorization given by the Shareholders' general meeting. For details, please refer to the announcements of the Bank dated 20 January 2018, 16 March 2018 and the circular of the Bank dated 22 February 2018.

29. Issuance of Debt Securities

29.1 Bond Issuance during the Reporting Period

The Bank did not issue any bonds during the Reporting Period.

29.2 Proposed Issuance of the Qualified Tier 2 Capital Instruments

As approved at the Board meeting of the Bank on 20 January 2018, the Board proposed the issuance of the qualified tier 2 capital instruments in the aggregate principal amount of no more than RMB10 billion, in order to replenish tier-2 capital, enhance capital adequacy ratio and enhance capital strengths of the Bank to support sustainable development of the Bank. The issuance of the Qualified Tier 2 Capital Instruments has been approved at the 2018 first extraordinary general meeting. The Board will execute the relevant issuance after obtaining the necessary approvals from relevant banking regulatory authorities in the PRC. For details, please refer to the announcements of the Bank dated 20 January 2018, 16 March 2018 and the circular of the Bank dated 22 February 2018.

30. Donation

The charitable and other donations made by the Bank amounted to approximately RMB 1,622,609 for the year ended 31 December, 2017.

Chapter 9 Report of the Board of Directors

31 Environmental Policy

During recent years, the Bank has proactively borne social responsibility in relation to environment policy. The Bank has sought to proactively develop business in green credit in line with national economic policy and regulatory trends. The Bank has actively reported the issuance of green financial bonds, and formulated the “Administrative Measures of Zhongyuan Bank Co., Ltd. for the Proceeds Raised by Green Financial Bonds” (《中原銀行股份有限公司綠色金融債券募集資金管理辦法》) to ascertain key areas of green credit which the Bank would support, and regulate credit policies in relation to industries restricted by the State and industries which pose environmental or social risks.

In addition, the Bank has strictly implemented the management policies after granting of credit and specialized environmental assessment reporting in relation to some projects to identify environmental and social risks. At the same time, the Bank has made efforts to push forward the development of electronic banking, and actively implemented national policies to save energy costs. For more details of our environmental policy and performance, please refer to the “Environmental, Social and Governance Report” that the Bank would issue after the annual report.

32. Consumer Rights Protection

During the Reporting Period, to enhance our service quality and generate customer values, our Bank stressed the importance to the protection of the consumer rights by effectively notifying risk exposure, appropriately disclosing information, fairly treating our consumers, enhancing the management of customer complaints and improving confidentiality policies about customer information.

33 Pledge of Significant Assets

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

34. Distributable Reserves

The distributable reserves of the Bank as of December 31, 2017 were RMB4,014 million.

35 Important events since the end of the Reporting Period

The Bank has proposed the issuance of offshore preference shares and qualified tier 2 capital instruments. For details, please see “—Proposed Issuance of Offshore Preference Shares” and “Proposed Issuance of the Qualified Tier 2 Capital Instruments” in this chapter.

Save as disclosed above, there were no important events affecting the Bank that have occurred since the end of the Reporting Period.

Chapter 9 Report of the Board of Directors

36 Other Matters

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

As at the date of this report, the Bank was not aware that any Shareholders had waived or agreed to any arrangement to waive dividends.

As at the date of this report, none of the Directors waived or agreed to relevant arrangement to waive remuneration.

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

On behalf of the Board of Directors

Dou Rongxing

Chairman

Zhengzhou, China

March 27, 2018

Chapter 10 Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors of the Bank performed its duties with due diligence pursuant to the Company Law, the Guidelines on Corporate Governance of Commercial Bank (《商業銀行公司治理指引》), the Guidelines on the Duties of the Supervisory Board of Commercial Banks (《商業銀行監事會工作指引》) and the Articles of Association of the Bank and played a positive role in promoting the steady development of our business, strengthening risk control and improving the corporate governance structure.

1. Major Work

1.1 Fully participating in various “Three Boards and One Layer” meetings and conscientiously performing the supervisory function

In 2017, the Board of Supervisors convened 6 meetings of the Board of Supervisors and 2 meetings of special committees, reviewed a total of 31 resolutions, heard 2 reports, and studied various important issues and aspects of work covering profit distribution, performance evaluation, financial budget and final accounts, system revision and supervisor election. The members of the Board of Supervisors attended the general meeting (including the extraordinary general meeting) twice and attended the meetings of the Board of Directors for 7 times and effectively supervised the relevant decision-making process and the performance of duties of the Board of Directors. Meanwhile, according to the needs of work, the Chairman of the Board of Supervisors also represented the Board of Supervisors to attend various important meetings such as business meetings and bank office meetings of the Bank, and kept abreast of the major issues in the Bank's operations and management to further improve the result of supervision. By participating in and attending various meetings and events, the Board of Supervisors had more timely access to information on all aspects of the Bank's operations and management, and conscientiously strengthened its supervisory function./

Chapter 10 Report of the Board of Supervisors

1.2 Focusing efforts on enhancing compliance and risk prevention and control, and effectively enhancing the actual effect of supervision

With the “year of compliance enhancement” as the starting point, the Bank’s Board of Supervisors focused its attention on the implementation of risk management responsibilities by focusing on the main line of stable compliance. First, we conducted a special review on the implementation of risk control responsibilities by “Two Boards and One Layer”, located and made up the deficiencies, and promoted the implementation of risk management responsibilities and the risk management and control mechanism at the corporate governance level. Second, we conducted in-depth investigations and research on risk-prone areas, and promoted and integrated information-based construction with the help of audit information systems and risk early warning systems, strengthened the collection, study and analysis of various types of information, strengthened the application and transformation of results, gave risk alerts and reports in a timely manner, strengthened risk handling plans and emergency management, and promoted the establishment of a full-process, full-coverage risk control network. Third, we urged the management to further regulate the system management process, rationalized the internal control system in an all-round manner, established a classification management general ledger for the internal control system, and implemented dynamic management. Fourth, we exchanged opinions with the management on the implementation of internal control compliance and operational risk integration management. Fifth, we carried out a series of multi-level and diversified compliance construction events in a planned and targeted manner. Sixth, we invited experts from consulting companies and regulatory authorities to conduct compliance training and publicity for all employees, established a normalized compliance education and training mechanism, and earnestly raised the compliance awareness of all employees.

1.3 Continuously diversifying the supervision means and constantly improving the working mechanism of the Board of Supervisors

During the Reporting Period, the Board of Supervisors continued to innovate new means and methods of duty performance supervision on the basis of continuous off-site monitoring, interviews, reviewing reports, investigations and research, off-office auditing and hiring third-party professional agencies. It continued to strengthen cooperation with the audit department. Audits and investigations covered various aspects of operation and management, effectively improving the result of supervision.

Chapter 10 Report of the Board of Supervisors

1.4 Strengthening work investigations and research and earnestly playing a role in business promotion

During the Reporting Period, the supervisors went to various branches such as Sanmenxia, Luoyang, Jiyuan and Xinxiang as well as Xinxiang Xinxing County Bank, Qixian Zhongyuan County Bank, Xinyang Pingqiao Zhongyuan County Bank and Xiping Caifu County Bank to conduct on-site investigations and research, truly understand the real problems and potential risks existing in the relevant operating entities in relation to the construction of the internal control system, the implementation and execution of systems, risk event handling and accountability, internal supervision and inspection, the disposal of non-performing assets and other aspects of county banks, put forward pertinent opinions and suggestions, and feed back to the Board of Directors and senior management the difficulties, problems and suggestions reflected by junior staff.

1.5 Strengthening self-construction and further enhancing the ability to supervise duty performance

On one hand, the supervisor team was replenished with fresh blood in a timely manner. According to the needs of work, candidates such as employee representative supervisors and vice-chairman were newly elected in 2017, which further strengthened the work force of the supervisor team and provided sufficient support for optimizing the staff structure and improving duty performance capabilities.

1.6 Contributing to the successful completion of the listing of H shares

First, we specially paid more attention to comprehensive risk reporting, duty performance evaluation and regulatory authorities circulating notices of rectification, etc. during the meetings of the Board of Supervisors and relevant special committees convened this year, which provided supervision support for stable and compliant operations and compliance with the listing requirements.

Second, we strengthened internal and external coordination, strove for broad support and carried forward regulatory approval, stock ownership confirmation and transfer (reduction) of state-owned equities and other work.

Third, we conformed to international rules and improved the supervision system. We newly revised and formulated systems such as Rules of Procedure of the Board of Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司監事會議事規則》), Method for the Nomination and Election of Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司監事提名與選舉辦法》) and Working Rules of External Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司外部監事工作規則》), which further improved the supervision system and made the system of the Board of Supervisors more mature, scientific, regulated and effective.

Chapter 10 Report of the Board of Supervisors

2. Opinions of the Board of Supervisors on the Supervision and Evaluation of Major Issues

2.1 Compliance with laws and regulations in operations

In 2017, the Bank operated in a stable and well-managed manner. Its operating activities complied with the requirements of the Company Law of the PRC, the Commercial Banking Law and the Articles of Association of Zhongyuan Bank Co., Ltd. The process of business decision making was legitimate and the operating results were objective and true. No Directors and senior management were found to have acts in violation of laws and regulations and detrimental to the interests of the shareholders of the Bank.

2.2 Financial statement

The 2017 financial statement of the Bank truthfully and fully reflected the financial position and operating results of the Bank, and was audited by KPMG and KPMG Huazhen LLP engaged by the Board of Directors of the Bank and of a standard audit report with unqualified opinions was issued.

2.3 Related Party Transactions

In 2017, the Board of Supervisors supervised the management of our related party transactions and considered that the management of our related party transactions was relatively standardized, which formed a standardized procedure for the management of related party transactions. With regard to related party transactions, we adhered to the principle of fairness and did not find any act of damaging the interests of our Bank and its shareholders.

2.4 Internal Control

The Bank emphasizes its internal control system and there were no significant defects found in the internal control system or its implementation.

2.5 Implementation of resolutions of general meetings

During the Reporting Period, the Bank convened one general meeting and one extraordinary general meeting. The Board of Supervisors organized its members to attend the meetings, and had no objection to the reports and proposals submitted by the Board of Directors of the Bank to the general meeting for consideration, supervised the execution of the resolutions of the general meeting and considered that the Board of Directors of the Bank was able to conscientiously implement the relevant resolutions of the general meeting.

Chapter 10 Report of the Board of Supervisors

3. The General Idea of the Work of the Board of Supervisors in 2018

In 2018, the Board of Supervisors of Zhongyuan Bank will effectively implement the resolutions of the general meeting and shall mainly achieve the following tasks by centering on persistent duty performance and supervision, as well as focusing on internal control and risk monitoring:

3.1 To further improve corporate governance

Normative corporate governance is a fundamental strategy for preventing risks. Therefore, further promoting the operation of the Board of Supervisors in accordance with laws and regulations is the main task of the Board of Supervisors of the Bank in 2018. We will continue to improve the system of the Board of Supervisors in strict accordance with the relevant requirements on corporate governance of listed companies, refine the operational procedures, and constantly improve the level and result of supervision and management.

3.2 To continuously improve the standard of internal control compliance and case prevention

We will continue to further implement the concepts of “steadiness, innovation, aggressiveness and efficiency” and “managing the Bank in strict compliance with laws and regulations”, pay attention to supervision and inspection in key areas, and promote the continuous improvement of our internal control system. First, we will improve the joint action of supervision and inspection of internal control departments, strengthen the self-checking and prevention and control functions of risk control and other lines, and at the same time carry out on-site supervision and inspection through cooperation with internal control departments to effectively strengthen the Board of Supervisors’ function of supervising risks, internal control and case prevention. Second, we will step up efforts in inspecting high-risk areas, case-prone areas and weaknesses, and effectively strengthen risk monitoring, early warning and handling. Third, we will strengthen cooperation with external auditors, and achieve information sharing through regular and irregular communication.

Chapter 10 Report of the Board of Supervisors

3.3 To further diversify duty performance supervision means

First, we will adhere to the regular meeting system, timely make resolutions on issues existing in operations management, financial accounting, internal control and risk management, etc. within the Bank, and provide advice and suggestions for improvement through regular or ad hoc meetings within the terms of reference of the Board of Supervisors. Second, we will strengthen daily supervision and gain a full understanding of the decision-making background and process of major issues and major matters by attending meetings of the Board of Directors and the Office of the President, the bank's work meetings and business analysis meetings, etc. which facilitates the Board of Supervisors to carry out effective supervision in a timely manner. Third, we will continue to strengthen the work of the Board of Supervisors in interviews and inquiries, etc., and judiciously combine the work of the Board of Supervisors in investigations and research, inspections, interviews, inquiries and audit reviews, return of audit, compliance check, etc., to identify weaknesses in a timely manner, and actively propose solutions to help improve the management standard.

3.4 To continue our special examination, investigation, and research

In 2018, the Board of Supervisors of the Bank will actively focus on the Bank's core work and key tasks, accurately grasp the responsibilities of the Board of Supervisors, participate in promoting the execution and implementation of various development strategies, and strive to enhance the promotional effect of supervision on operations and business development. First, we will further conduct various types of investigations and research. Second, we will implement issue-oriented special supervision. Third, we will step up efforts in on-site inspections. We will conduct on-site inspections by focusing on key areas and risk-prone aspects, organize external supervisors and relevant departments to conduct special inspections, and constantly enhance the effectiveness of internal control compliance management through measures such as enhanced supervision and compliance rectification.

3.5 To smooth internal and external communication and cooperation

First, we will strengthen communication with regulatory authorities, actively participate in regulatory talks, timely understand regulatory policies and regulatory opinions, strive for more policy guidance and regulatory support, and pertinently conduct supervision taking into account the Bank's actual situation. Second, we will strengthen exchanges with peers, combine "going global" learning and "bringing in" exchanges, broaden ideas, increase knowledge, and improve the work functions of the Board of Supervisors of the Bank. Third, we will strengthen communication with the Board of Directors and the management, further implement supervisors' right to information, send financial information and reports on major issues of the Bank to supervisors, and provide information, materials and regulatory notices to supervisors from time to time on business development, internal control management and corporate governance, etc., to enable supervisors to better grasp the Bank's operations and management, promote information sharing, ensure the due performance of duties without any bias, and effectively perform supervisory duties.

Chapter 10 Report of the Board of Supervisors

3.6 To constantly improve the Board of Supervisors

We will further strengthen the team building of the Board of Supervisors, and constantly improve the Board of Supervisors and improve the ability of the Board of Supervisors to perform its duties through measures such as further increasing strength, enhancing learning and conducting training. First, we will focus on summing up experience and accumulation in work practices, put emphasis on leveraging the leading role of innovation, update work concepts, methods and means in an all-round manner, and strive to increase the standard and results of the supervision and management work of the Board of Supervisors. Second, we will actively organize supervisors to participate in various types of training organized by regulatory authorities and the Bank, strengthen supervisors' study of regulatory policies and understanding of the macroeconomic situation, constantly improve the level of theoretical knowledge, and seize the initiative to work. Third, we will strengthen the staffing of the Board of Supervisors. It is necessary to equip the Board of Directors with full-time staff to ensure the independence and authority of the work of the Board of Supervisors. The fourth is to complete the election of the new session of the Board of Supervisors and facilitate the transition.

On behalf of the Board of Supervisors

HAO Jingtao

Supervisor

Zhengzhou, China

March 27, 2018

Chapter 11 Important Events

1. Use of Proceeds

The net proceed received from the Bank's global offering was approximately HK\$8,200 million, including the net proceeds of approximately HK\$1,100 million from the Shares issued pursuant to the exercise in full of the over-allotment option. The Bank applies all of those proceeds raised in the global offering towards the uses as disclosed in the Prospectus and for replenishing its capital.

2. Profits and Dividends

The income and financial position of the Bank for 2017 are set out in the annual financial statements of this annual report. The Board has recommended the payment of a final dividend in cash of RMB0.71 (tax included) per ten shares for the year ended December 31, 2017. The total amount paid is approximately RMB1,425 million. The final dividend is subject to approval by shareholders at the forthcoming 2017 annual general meeting of the Bank. If approved by the annual general meeting of the Bank, the final dividend is expected to be paid in on June 29, 2018.

3. Material Connected Transactions

As of the end of the Reporting Period, there had not been any material connected transactions entered into between the Bank and its connected persons.

4. Material Litigations and Arbitrations

As of December 31, 2017, material pending legal proceedings in which the Group was involved as a defendant amounted to RMB766 million.

4.1 Litigations against the Xinxiang branch in relation to alleged lending and borrowing

As of December 31, 2017, the Group received 49 cases filed against the Xinxiang branch for alleged lending and borrowing raised by 43 plaintiffs demanding the Xinxiang branch to repay alleged loan principal of approximately RMB219.0 million with accrued interest. Among the 49 cases, 9 cases involved a claim over RMB10.0 million with an aggregate loan principal of RMB123.9 million. As of December 31, 2017, 19 cases had received first judgements or rulings, while 30 cases were still pending for judgements.

4.2 Litigation against the Puyang branch in relation to alleged lending and borrowing

In July 2016, the plaintiff of the case filed a lawsuit against the Puyang branch for alleged lending and borrowing. On June 21, 2017, the Puyang branch received a judgement from Puyang Intermediate People's Court, in which the court determining that, we shall be liable for up to one half of the amount of loans and accrued interest that Puyang Borrower could not repay. As of December 31, 2017, the Puyang branch had applied for retrial before the Henan High People's Court.

Chapter 11 Important Events

4.3 Property rights dispute of Zhoukou Branch

In April 2016, the plaintiff of the case filed a lawsuit against the Zhoukou Branch for property rights dispute. Zhoukou Intermediate People's Court determined that the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. In September 2016, the Zhoukou branch appealed to the Henan High People's Court. As of December 31, 2017, the court of second instance quashed the judgment of first instance and remitted the case to the court of first instance for retrial.

4.4 Litigation against Lushi Defeng County Bank Co., Ltd. in relation to alleged lending and borrowing

Lushi Defeng County Bank was sued in April 2015 and March 2017 respectively, for two cases regarding alleged lending and borrowing. In April 2016, Luoyang Intermediate People's Court rendered judgment of one of the above-mentioned cases against the Lushi County Bank, which later appealed to Henan High People's Court. As of December 31, 2017, the court of second instance quashed the judgment of first instance and remitted the case to the court of first instance for retrial. The other case was still pending for judgements.

5. Penalties for the Bank and its Directors, Supervisors and Senior Management

During the Reporting Period, none of the Bank, its Directors, Supervisors or senior management had been subject to any investigation, administrative penalty or public criticism by the China Securities Regulatory Commission or any public censure by any stock exchange or any punishment by any other regulatory authorities which would have a material impact on the operation of the Bank.

6. Performance of Commitments by the Bank and Shareholders with 5% or more of Shares

During the Reporting Period, neither the Bank nor Shareholders with 5% or more of the total issued shares of the Bank, has made any commitments.

7. Material Contracts and their Performance

During the Reporting Period, the Bank was not involved in any material contracts to be performed.

Chapter 11 Important Events

8. Acquisitions and Disposals of Assets and Business Mergers

During the Reporting Period, the Bank was not engaged in any material acquisition or disposal of assets or business mergers.

9. Profit Distribution During the Reporting Period

The 2016 profit distribution plan of the Bank was considered and approved at the 2016 annual general meeting of the Bank held on April 6, 2017. The Bank did not distribute any profit for 2016.

10. Audit Review

The financial statements for 2017 prepared by the Bank according to the IFRSs has been audited by KPMG, Certified Public Accountants, and the auditor's reports were unqualified. The 2017 Annual Report of the Bank has been reviewed and approved by the Audit Committee of the Board and the Board of Directors of the Bank.

Chapter 12 Independent Auditor's Report

Independent auditor's report to the shareholders of Zhongyuan Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of Zhongyuan Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages 164 to 282, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis of opinion

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

Key audit matters

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

Chapter 12 Independent Auditor's Report

Impairment of loans and receivables

Refer to note 20 and 23 to the consolidated financial statements and the accounting policies on pages 180-183.

The key audit matter

Loans and receivables include both loans and advances to customers and debt securities classified as receivables.

Impairment of loans and receivables is a subjective area due to the level of judgement applied by management in determining provisions.

From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining provision for impairment losses were those where impairments were derived from collective assessment models, where the loans and receivables were unsecured or where the loans and receivables were subject to potential collateral shortfalls.

The determination of the collective provision for impairment losses is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The Group's collective provisions for impairment losses are derived from estimates including the Group's historical losses for loans and receivables, the loss emergence period (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors.

Individual provisions for impairment losses are estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors.

How the matter was addressed in our audit

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

- assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of loans and receivables, the credit grading process and the measurement of individual provisions for impairment losses. For the key underlying systems used for the processing of transactions in above processes, we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management;
- comparing the total balance of the loan grading report used by management to assess the provision for impairment losses with the general ledger and comparing individual loan information, on a sample basis, with the underlying loan agreements and other related documentation to assess the presentation of the information in the loan grading report;

Chapter 12 Independent Auditor's Report

Impairment of loans and receivables

Refer to note 20 and 23 to the consolidated financial statements and the accounting policies on pages 180-183.

The key audit matter

Whilst the Group performs valuations of property and other illiquid collateral, enforceability, timing and means of realisation also affect the ultimate collectability and thereby the amount of impairment allowances as at the reporting date.

We identified impairment of loans and receivables as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.

How the matter was addressed in our audit

- evaluating the validity of the models used and assumptions adopted in the Group's calculation of the collective provisions for impairment losses by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Group's other internal records and our prior year records. As part of these procedures, we challenged the Group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the accounts to impaired loans and receivables. Having considered the above, we performed a re-calculation to assess the amount of collective provisions for impairment losses;
- assessing the individual provisions for impairment losses by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic slowdown with reference to the borrowers with adverse press coverage. We also selected samples based on other risk criteria and from the Group's overdue report. We selected further samples for credit review from loans classified non-performing. We assessed the compilation of the overdue report and other key data maintained in the information technology systems by comparing the details of a sample of loans and advances with the underlying loan documentation;

Chapter 12 Independent Auditor's Report

Impairment of loans and receivables

Refer to note 20 and 23 to the consolidated financial statements and the accounting policies on pages 180-183.

The key audit matter

How the matter was addressed in our audit

- performing credit review procedures for the sample of loans and receivables selected as mentioned above, which included making enquiries of the credit managers about the customers' business operations, reviewing customers' financial information, researching market information about customers' businesses and evaluating management's assessment of the value of any collateral held, assessing the forecast cash flows for impaired loans and receivables, challenging the viability of the Group's recovery plans, comparing management's valuation of collateral to market prices, evaluating the timing and means of realization of collateral and considering other sources of repayment asserted by management; and
- assessing the disclosures in relation to impairment of loans and receivables in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

Chapter 12 Independent Auditor's Report

Consolidation of structured entities

Refer to note 39 to the consolidated financial statements and the accounting policies on page 201.

The key audit matter

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

In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the power the Group is able to exercise over the activities of the entity and the Group's exposure to and ability to influence its own returns from the entity. In certain circumstances the Group may be required to consolidate a structured entity even though it has no equity interest therein.

We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement to determine whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated statement of financial position and relevant regulatory capital requirements could be significant.

How the matter was addressed in our audit

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

- making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard;
- selecting significant structured entities of each key product type and performing the following procedures for each entity selected:
 - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;
 - reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity;

Chapter 12 Independent Auditor's Report

Consolidation of structured entities

Refer to note 39 to the consolidated financial statements and the accounting policies on page 201.

The key audit matter

How the matter was addressed in our audit

- reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity;
- assessing management's judgement over whether the structured entity should be consolidated or not;
- assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and our auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Chapter 12 Independent Auditor's Report

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

Chapter 12 Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Lok Man.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
March 27, 2018

Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Interest income		21,250,182	17,005,081
Interest expense		(9,048,914)	(5,801,754)
Net interest income	4	12,201,268	11,203,327
Fee and commission income		903,834	510,345
Fee and commission expense		(134,264)	(61,285)
Net fee and commission income	5	769,570	449,060
Net trading losses	6	(379,285)	(71,717)
Net (losses)/gains arising from investment securities	7	(375)	9,088
Other operating income	8	224,284	213,980
Operating income		12,815,462	11,803,738
Operating expenses	9	(5,759,025)	(5,136,375)
Impairment losses on assets	12	(2,028,081)	(2,246,755)
Profit before tax		5,028,356	4,420,608
Income tax	13	(1,122,678)	(1,060,524)
Net profit for the year		3,905,678	3,360,084

The notes on pages 172 to 282 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Net profit for the year		3,905,678	3,360,084
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
– Available-for-sale financial assets: net movement in the investment revaluation reserve	37(a) (i)	(364,051)	(649,314)
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	37(a) (ii)	(1,514)	545
Other comprehensive income, net of tax		(365,565)	(648,769)
Total comprehensive income		3,540,113	2,711,315
Net profit attributable to:			
Equity shareholders of the Bank		3,838,703	3,359,071
Non-controlling interests		66,975	1,013
		3,905,678	3,360,084
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,473,138	2,710,302
Non-controlling interests		66,975	1,013
		3,540,113	2,711,315
Basic and diluted earnings per share (in RMB)	14	0.21	0.20

The notes on pages 172 to 282 form part of these financial statements.

Consolidated statement of financial position

as at December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Assets			
Cash and deposits with the central bank	15	64,369,403	49,370,893
Deposits with banks and other financial institutions	16	8,923,751	12,830,492
Placements with banks and other financial institutions	17	1,363,355	8,700,000
Financial assets at fair value through profit or loss	18	9,865,812	4,207,070
Financial assets held under resale agreements	19	12,988,617	6,573,627
Loans and advances to customers	20	191,708,835	158,547,291
Available-for-sale financial assets	21	94,558,846	102,258,809
Held-to-maturity investments	22	23,735,307	17,851,813
Debt securities classified as receivables	23	98,764,236	58,678,326
Property and equipment	25	4,606,622	4,785,468
Deferred tax assets	26	2,045,918	1,529,574
Goodwill	27	468,397	468,397
Other assets	28	8,590,727	7,269,679
Total assets		<u>521,989,826</u>	<u>433,071,439</u>

The notes on pages 172 to 282 form part of these financial statements.

Consolidated statement of financial position

as at December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

Liabilities and equity	Note	2017	2016
Liabilities			
Borrowing from the central bank		1,322,887	4,517,048
Deposits from banks and other financial institutions	30	39,650,832	44,954,774
Placements from banks and other financial institutions	31	5,717,105	10,400,000
Financial assets sold under repurchase agreements	32	40,809,848	27,580,567
Deposits from customers	33	306,708,284	245,352,754
Income tax payable		984,900	748,761
Debt securities issued	34	74,128,630	57,387,758
Other liabilities	35	6,576,729	6,631,138
Total liabilities		475,899,215	397,572,800
Equity			
Share capital	36	20,075,000	16,625,000
Capital reserve	37	13,535,519	10,274,466
Surplus reserve	37	1,258,065	877,063
General reserve	37	6,386,313	5,134,776
Retained earnings	38	4,014,023	1,807,859
Total equity attributable to equity shareholders of the Bank		45,268,920	34,719,164
Non-controlling interests		821,691	779,475
Total equity		46,090,611	35,498,639
Total liabilities and equity		521,989,826	433,071,439

Approved and authorised for issue by the board of directors on March 27, 2018.

Dou Rongxing

Chairman of the Board of Directors
Executive Director

Wang Jiong

President
Executive Director

Zhang Yi

General Manager of the Planning
and Finance Department

(Company chop)

The notes on pages 172 to 282 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank					Non-controlling interests	Total
		Share capital	Capital reserve	Surplus reserve	General reserve	Retained earning	Subtotal	
Balance at January 1, 2017		16,625,000	10,274,466	877,063	5,134,776	1,807,859	34,719,164	779,475
Changes in equity for the year:								
Net profit for the year		—	—	—	—	3,838,703	3,838,703	66,975
Other comprehensive income		—	(365,565)	—	—	—	(365,565)	—
Total comprehensive income		—	(365,565)	—	—	3,838,703	3,473,138	66,975
Issue of H-shares		3,450,000	3,626,202	—	—	—	7,076,202	—
Purchase of non-controlling interests		—	416	—	—	—	416	(416)
Appropriation to surplus reserve	38	—	—	381,002	—	(381,002)	—	—
Appropriation to general reserve	38	—	—	—	1,251,537	(1,251,537)	—	—
Appropriation to shareholders	38	—	—	—	—	—	—	(24,343)
Balance at December 31, 2017		20,075,000	13,535,519	1,258,065	6,386,313	4,014,023	45,268,920	821,691
Balance at January 1, 2016		16,625,000	10,919,640	542,346	2,209,150	2,648,920	32,945,056	472,968
Changes in equity for the year:								
Net profit for the year		—	—	—	—	3,359,071	3,359,071	1,013
Other comprehensive income		—	(648,769)	—	—	—	(648,769)	—
Total comprehensive income		—	(648,769)	—	—	3,359,071	2,710,302	1,013
Purchase of non-controlling interests		—	3,595	—	—	—	3,595	(53,162)
Capital contribution by non-controlling interests		—	—	—	—	(25,413)	(25,413)	189,317
Capital contribution by non-controlling interests of newly established subsidiary		—	—	—	—	—	—	175,000
Appropriation to surplus reserve	38	—	—	334,717	—	(334,717)	—	—
Appropriation to general reserve	38	—	—	—	2,925,626	(2,925,626)	—	—
Appropriation to shareholders	38	—	—	—	—	(914,376)	(914,376)	(5,661)
Balance at December 31, 2016		16,625,000	10,274,466	877,063	5,134,776	1,807,859	34,719,164	779,475

The notes on pages 172 to 282 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Cash flows from operating activities			
Profit before tax		5,028,356	4,420,608
Adjustments for:			
- Impairment losses on assets		2,028,081	2,246,755
- Depreciation and amortization		722,491	671,204
- Depreciation of investment properties		8,358	11,092
- Unwinding of discount		(50,741)	(83,747)
- Unrealized foreign exchange losses/(gains)		222,329	(8,242)
- Net (gains)/losses on disposal of property and equipment		(14,778)	7,679
- Net trading losses		156,956	79,959
- Net losses/(gains) on disposal of investment securities		375	(9,088)
- Interest expense on debts securities issued		2,589,377	727,871
		10,690,804	8,064,091
<i>Changes in operating assets</i>			
Net increase in deposits with the central bank		(9,050,567)	(3,687,857)
Net (increase)/decrease in deposits with banks and other financial institutions		(2,080,801)	950,000
Net decrease/(increase) in placements with banks and other financial institutions		300,000	(999,179)
Net increase in loans and advances to customers		(34,918,467)	(26,802,843)
Net decrease in financial assets held under resale agreements		—	2,071,196
Net (increase)/decrease in financial assets at fair value through profit or loss		(5,815,698)	12,857,152
Net increase in other operating assets		(1,494,331)	(2,341,855)
		(53,059,864)	(17,953,386)

The notes on pages 172 to 282 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
<i>Changes in operating liabilities</i>			
Net (decrease)/increase in borrowing from central bank		(3,194,161)	2,865,222
Net (decrease)/increase in deposits from banks and other financial institutions		(5,303,942)	15,569,001
Net (decrease)/increase in placements from banks and other financial institutions		(4,682,895)	10,400,000
Net increase in financial assets sold under repurchase agreements		13,229,281	2,642,962
Net increase in deposits from customers		61,355,530	39,982,400
Income tax paid		(1,281,533)	(1,531,492)
Net decrease in other operating liabilities		(16,807)	(946,031)
		60,105,473	68,982,062
Net cash flows generated from operating activities		17,736,413	59,092,767
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		283,747,985	269,161,057
Gains received from investment activities		—	9,088
Proceeds from disposal of property and equipment and other assets		81,522	81,148
Payments on acquisition of investments		(322,824,187)	(377,247,954)
Payments on acquisition of property and equipment, intangible assets and other assets.		(553,389)	(1,349,604)
Net cash flows used in investing activities		(39,548,069)	(109,346,265)

The notes on pages 172 to 282 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Cash flows from financing activities			
Proceeds received from issuance of H-shares		7,076,202	—
Proceeds from capital contribution by non-controlling shareholders		—	338,904
Proceeds from issued debt securities		128,341,495	57,158,495
Acquisition of non-controlling interests		—	(49,567)
Repayment of debts securities issued		(112,302,024)	(3,000,000)
Interest paid on debts securities issued		(1,887,976)	(477,653)
Dividends paid		(63,460)	(774,529)
Net cash flows generated from financing activities		21,164,237	53,195,650
Effect of foreign exchange rate changes on cash and cash equivalents		(13,835)	(8,242)
Net (decrease)/increase in cash and cash equivalents	41(a)	(661,254)	2,933,910
Cash and cash equivalents as at January 1		43,741,320	40,807,410
Cash and cash equivalents as at December 31	41(b)	43,080,066	43,741,320
Interest received		20,412,896	16,059,403
Interest paid (excluding interest expense on debts securities issued)		(5,900,242)	(5,101,517)

The notes on pages 172 to 282 form part of these financial statements.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of China Banking Regulatory Commission (the "CBRC"). Prior to its establishment, the banking business (the "Business") was carried out by thirteen city commercial banks (the "Predecessor Entities"), each being located in Henan Province.

Pursuant to the reorganization initiated by the People's Government of Henan Province (the "Henan Government"), the Bank was established through the merger and reorganization of the Predecessor Entities.

The Bank obtained its financial institution license No. B0615H241010001 from the CBRC, and obtained its business license No. 410000100034311 from the State Administration for Industry and Commerce of the PRC. The Bank is regulated by the CBRC authorized by the State Council.

In July 2017, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 01216).

As at December 31, 2017, the Bank has one head office and 18 branches across Henan Province, 9 subsidiaries which are county banks and 1 subsidiary which is consumer finance company. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBRC.

2 Significant accounting policies

(1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirement of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(3) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(2) Basis of preparation of the financial statements

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

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(27).

The measurement basis used in the preparation of the financial statements is the historical basis, except that the financial instruments classified as available-for-sale or at fair value through profit or loss (see Note 2(9)) are stated at their fair value as explained in the accounting policies.

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

(3) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(4) Subsidiaries and non-controlling interests

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

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

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(4)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(17)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(5) Associates and joint ventures

An associate is an entity in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(17)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(5) Associates and joint ventures (Continued)

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Bank's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(6) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(17)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(7) Translation of foreign currencies

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

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

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of each reporting period. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognized in capital reserve.

(8) Cash and cash equivalents

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

(9) Financial instruments

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

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

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

Financial assets and financial liabilities are categorized as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading).

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

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

- Held-to-maturity investments

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

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

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

- Loans and receivables

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

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

Loans and receivables mainly comprise loans and advances to customers, debt securities classified as receivables, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

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

- Available-for-sale financial assets

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

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

- Other financial liabilities

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

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

(ii) *Impairment of financial assets*

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

Objective evidence includes the following loss event:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

- disappearance of an active market for financial assets because of financial difficulties;
 - significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
 - a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- Loans and receivables

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

Individual assessment

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

Collective assessment

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

Homogeneous groups of loans not considered individually significant

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

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

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

The collective impairment loss is assessed after taking into account:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

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

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

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

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

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

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

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

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

- Held-to-maturity investments

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

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

- Available-for-sale financial assets

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(iii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

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

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(v) *Offsetting*

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

(10) Financial assets held under resale and repurchase agreements

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

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

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(11) Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(4).

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note 2(17)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

(12) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(17)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%

(13) Property and equipment and construction in progress

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(17)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(17)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(13) Property and equipment and construction in progress (Continued)

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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

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

Asset category	Estimated useful life	Estimated rate	Depreciation rate
		of residual value	
Premises	20 years	3%	4.85%
Motor vehicles	5 years	3%	19.40%
Others	3 - 10 years	3%	9.70% - 32.33%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

(14) Operating leases

Payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(15) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(17)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30 - 50 years
Computer software	5 years

(16) Repossessed assets

Reposessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The reposessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the reposessed assets, the assets are written down to the recoverable amount.

(17) Provision for impairment losses on non-financial assets

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

- property and equipment;
- construction in progress;
- intangible assets;
- investment property measured using a cost model;
- investments in subsidiaries and associates; and
- goodwill.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

An asset’s fair value less costs to sell is the amount determined by the price of a sale agreement in an arm’s length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognized accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognized in prior periods.

(18) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(18) Employee benefits (Continued)

(i) *Short term employee benefits and contributions to defined contribution retirement plans (Continued)*

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Housing fund and other social insurances

In addition to the retirement benefits above, the Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

(ii) *Supplementary retirement benefits*

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(18) Employee benefits (Continued)

(ii) *Supplementary retirement benefits (Continued)*

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

(19) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(19) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(19) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(20) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position as stated in Note 2(20) (ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(20) Financial guarantees, provisions and contingent liabilities (Continued)

(ii) *Other provisions and contingent liabilities*

A provision is recognized for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(21) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(22) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders. Income is recognized in profit or loss when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably and the following respective conditions are met:

(i) *Interest income*

Interest income for financial assets is recognized in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

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

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

(ii) *Fee and commission income*

Fee and commission income is recognized in profit or loss when the corresponding service is provided.

(iii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(22) Income recognition (Continued)

(iv) *Other income*

Other income is recognized on an accrual basis.

(23) Expenses recognition

(i) *Interest expenses*

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) *Other expenses*

Other expenses are recognized on an accrual basis.

(24) Dividends

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

(25) Related parties

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(25) Related parties (Continued)

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

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

(26) Segment reporting

Operating segments are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(27) Significant accounting estimates and judgements

(i) *Provision for impairment losses on loans and advances to customers and investments (available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables)*

The Group reviews portfolios of loans and advances to customers and investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances to customers and investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances to customers and debt investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for an available-for-sale equity investment includes significant or prolonged decline in its fair value below its cost. When deciding whether there is significant or prolonged decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

(ii) *Fair value of financial instruments*

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(27) Significant accounting estimates and judgements (Continued)

(iii) The classification of the held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Group has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(v) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(27) Significant accounting estimates and judgements (Continued)

(vi) *Depreciation and amortization*

Investment properties, property and equipment and intangible assets are depreciated and amortized using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each of the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

(vii) *Determination of control over investees*

Management applies its judgement to determine whether the control indicators set out in Note 2(4) indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, the Group's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Group has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 39.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Taxes

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	3% - 6%
Business tax	Based on taxable revenue before May 1, 2016. According to Caishui [2016] No. 36, jointly issued by the Ministry of Finance and the State Administration of Taxation, all taxpayers subject to business tax in China are included in the scope of the VAT pilot scheme. Effective from May 1, 2016, those taxpayers are required to pay VAT in lieu of business tax.	3% - 5%
City maintenance and construction tax	Based on business tax and VAT paid	5% - 7%
Corporate income tax	Based on taxable profits	25%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Net interest income

	2017	2016
Interest income arising from		
Deposits with the central bank	639,719	546,059
Deposits with banks and other financial institutions	162,770	101,020
Placements with banks and other financial institutions	74,684	43,514
Loans and advances to customers		
- Corporate loans and advances	7,191,893	7,329,194
- Personal loans and advances	3,453,153	2,324,889
- Discounted bills	277,714	437,476
Financial assets held under resale agreements	221,991	141,005
Investments	9,228,258	6,081,924
Sub-total	21,250,182	17,005,081
Interest expenses arising from		
Borrowing from the central bank	(62,438)	(28,007)
Deposits from banks and other financial institutions	(1,705,406)	(1,161,186)
Placements from banks and other financial institutions	(114,047)	(13,968)
Deposits from customers	(3,931,670)	(3,394,251)
Financial assets sold under repurchase agreements	(645,976)	(476,471)
Debts securities issued	(2,589,377)	(727,871)
Sub-total	(9,048,914)	(5,801,754)
Net interest income	12,201,268	11,203,327

Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended December 31, 2017 amounted to RMB 20,838.40 million (2016: RMB 16,132.03 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended December 31, 2017 amounted to RMB 9,048.91 million (2016: RMB 5,801.75 million).

Interest income arising from impaired financial assets for the year ended December 31, 2017 amounted to RMB 50.74 million (2016: RMB 83.75 million).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Net fee and commission income

	2017	2016
Fee and commission income		
Escrow and custody services fees	230,598	26,120
Wealth management business fees	169,780	232,898
Underwriting fees	113,753	26,782
Advisory and consulting fees	109,622	27,754
Agency services fees	93,102	47,876
Payment and settlement services fees	89,825	61,422
Acceptance and guarantee services fees	60,724	48,499
Bank card services fees	36,430	38,994
Sub-total	903,834	510,345
Fee and commission expense	(134,264)	(61,285)
Net fee and commission income	769,570	449,060

6 Net trading losses

	2017	2016
Net losses from debt securities	(156,956)	(79,959)
Net foreign exchange (losses)/gains	(222,329)	8,242
Net trading losses	(379,285)	(71,717)

Net losses from debt securities include losses arising from the buying and selling of, and changes in the fair value of financial assets at fair value through profit or loss.

Net foreign exchange (losses)/gains mainly include gains from translation of foreign currency monetary assets and liabilities into Renminbi.

7 Net (losses)/gains arising from investment securities

	2017	2016
Net (losses)/gains on disposal of available-for-sale financial assets	(978)	9,083
Net gains on disposal of held-to-maturity investments	—	5
Net gains on disposal of debt securities classified as receivables	600	—
Others	3	—
Total	(375)	9,088

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

8 Other operating income

	2017	2016
Government grants	134,748	106,351
Rental income	34,216	35,708
Net gains on disposal of property and equipment	20,545	4,798
Others	34,775	67,123
Total	224,284	213,980

9 Operating expenses

	2017	2016
Staff costs		
- Salaries, bonuses and allowances	2,343,946	1,983,482
- Employee education expenses and labor union expenses	103,271	87,702
- Staff welfares	215,321	185,969
- Housing allowances	129,725	102,178
- Social insurance and annuity	376,986	283,605
- Supplementary retirement benefits	(1,229)	4,617
- Others	62,200	36,959
Sub-total	3,230,220	2,684,512
Office expenses	1,025,984	962,155
Taxes and surcharges	120,170	271,826
Rental and property management expenses	278,905	207,416
Depreciation and amortization	722,491	671,204
Other general and administrative expenses	381,255	339,262
Total	5,759,025	5,136,375

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments

Directors' and supervisors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

		2017						
	Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Executive directors								
Dou Rongxing		—	1,306	4,207	234	5,747	775	4,972
Hu Xiangyun		—	842	2,650	208	3,700	355	3,345
Wang Jiong		—	1,212	3,659	225	5,096	587	4,509
Hao Jingtao		—	960	2,950	208	4,118	465	3,653
Zhang Bin	(1)	—	916	1,148	94	2,158	—	2,158
Non-executive directors								
Li Xipeng		45	—	—	—	45	—	45
Li Qiaocheng		15	—	—	—	15	—	15
Independent non-executive directors								
Li Hongchang		439	—	—	—	439	—	439
Pang Hong		430	—	—	—	430	—	430
Jia Tingyu		3,351	—	—	—	3,351	—	3,351
Chan Ngai Sang	(2)	245	—	—	—	245	—	245
Supervisors								
Ma Guoliang		—	950	2,920	225	4,095	435	3,660
Jia Jihong	(2)	—	614	1,095	183	1,892	227	1,665
Si Qun		—	521	1,157	191	1,869	374	1,495
Zhao Ming		50	—	—	—	50	—	50
Li Weizhen		60	—	—	—	60	—	60
Li Wanbin		45	—	—	—	45	—	45
Li Xiaojian		—	240	—	—	240	—	240
Han Wanghong		—	245	—	—	245	—	245
Sun Xuemin		—	225	—	—	225	—	225
Total		4,680	8,031	19,786	1,568	34,065	3,218	30,847

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments (Continued)

		2016						
	Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Executive directors								
Dou Rongxing		—	1,037	3,237	118	4,392	532	3,860
Hu Xiangyun		—	632	2,193	110	2,935	380	2,555
Wang Jiong		—	869	2,963	119	3,951	499	3,452
Hao Jingtao		—	684	2,407	110	3,201	410	2,791
Zhang Bin		—	920	2,083	105	3,108	317	2,791
Non-executive directors								
Li Xipeng		25	—	—	—	25	—	25
Zhang Huichen	(1)	5	—	—	—	5	—	5
Li Qiaocheng		—	—	—	—	—	—	—
Independent non-executive directors								
Li Hongchang		330	—	—	—	330	—	330
Pang Hong		330	—	—	—	330	—	330
Jia Tingyu		140	—	—	—	140	—	140
Supervisors								
Ma Guoliang		—	684	2,407	118	3,209	409	2,800
Qin Jianhua	(1)	—	600	2,003	109	2,712	344	2,368
Si Qun		—	430	1,217	102	1,749	—	1,749
Zhao Ming		20	—	—	—	20	—	20
Li Weizhen		30	—	—	—	30	—	30
Li Wanbin		25	—	—	—	25	—	25
Li Xiaojian		—	180	—	—	180	—	180
Han Wanghong		—	180	—	—	180	—	180
Sun Xuemin		—	125	—	—	125	—	125
Total		905	6,341	18,510	891	26,647	2,891	23,756

Notes:

- (1) Zhang Bin resigned as executive director of the Bank from December 26, 2017. Zhang Huichen resigned as non-executive director of the Bank from September 13, 2016. Qin Jianhua resigned as deputy supervisor of the Bank from February 13, 2017.
- (2) At the shareholders' general meeting held on April 6, 2017, Chan Ngai Sang was elected as independent non-executive director of the Bank. At the supervisory board meeting held on April 6, 2017, Jia Jihong was elected as deputy supervisor of the Bank.

There was no amount paid during the years ended 31 December, 2017 and 31 December, 2016 to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the years ended December 31, 2017 and 2016.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

11 Individuals with highest emoluments

For the year ended December 31, 2017, the five individuals with highest emoluments included 4 directors and 1 supervisor of the Bank (2016: 4 directors and 1 supervisor). Their emoluments are disclosed in Note 10.

12 Impairment losses on assets

	2017	2016
Loans and advances to customers	1,221,913	1,994,627
Debt securities classified as receivables	45,427	76,635
Others	760,741	175,493
Total	2,028,081	2,246,755

13 Income tax

(a) Income tax:

	Note	2017	2016
Current tax		1,517,671	1,345,539
Deferred tax	26(b)	(394,993)	(285,015)
Total		1,122,678	1,060,524

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2017	2016
Profit before tax		5,028,356	4,420,608
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		1,257,089	1,105,152
Non-deductible expenses			
- Staff welfare expenses		9,193	8,505
- Others		6,850	16,627
Non-taxable income	(i)	(150,241)	(97,086)
Changes in deductible temporary differences or deductible losses for which no deferred tax assets was recognized		(213)	27,326
Income tax		1,122,678	1,060,524

(i) The non-taxable income mainly represents the interest income from the PRC government bonds.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 Basic and diluted earnings per share

	Note	2017	2016
Net profit attributable to equity shareholders of the Bank		3,838,703	3,359,071
Weighted average number of ordinary shares (in thousands)	(i)	18,151,301	16,625,000
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.21	0.20

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

(i) Weighted average number of ordinary shares (in thousands)

	2017	2016
Number of ordinary shares as at January 1	16,625,000	16,625,000
New added weighted average number of ordinary shares	1,526,301	—
Weighted average number of ordinary shares	<u>18,151,301</u>	<u>16,625,000</u>

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

15 Cash and deposits with the central bank

	Note	2017	2016
Cash on hand		1,523,007	1,292,479
Deposits with the central bank			
- Statutory deposit reserves	15(a)	40,374,116	32,029,080
- Surplus deposit reserves	15(b)	21,112,137	15,394,722
- Fiscal deposits		1,360,143	654,612
Sub-total		62,846,396	48,078,414
Total		64,369,403	49,370,893

- (a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at December 31, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2017	2016
Reserve ratio for RMB deposits	13.50%	13.50%
Reserve ratio for foreign currency deposits	5%	5%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

16 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

	2017	2016
Deposits in mainland China		
- Banks	4,366,639	12,666,112
- Other financial institutions	134,644	107,910
Sub-total	4,501,283	12,774,022
Deposits outside mainland China		
- Banks	4,422,468	56,470
Total	8,923,751	12,830,492

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Placements with banks and other financial institutions

Analyzed by type and location of counterparty

	2017	2016
Placements in mainland China		
- Banks	669,768	7,414,703
- Other financial institutions	712,614	1,304,958
Total	1,382,382	8,719,661
Less: Provision for impairment losses	(19,027)	(19,661)
Net carrying amount	1,363,355	8,700,000

18 Financial assets at fair value through profit or loss

	2017	2016
Debt securities held for trading purpose		
- Government	582,167	49,551
- Policy banks	952,922	1,652,447
- Banks and other financial institutions	8,041,970	49,990
- Corporates	288,753	2,455,082
Total	9,865,812	4,207,070
Listed	601,796	260,148
Unlisted	9,264,016	3,946,922
Total	9,865,812	4,207,070

Note:

As at December 31, 2017 and 2016, certain financial assets at fair value through profit or loss was pledged for repurchase agreements (Note 29(a)). No other investments were subject to material restrictions on the realization.

19 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

	2017	2016
In mainland China		
- Banks	10,909,078	6,073,627
- Other financial institutions	2,079,539	500,000
Total	12,988,617	6,573,627

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial assets held under resale agreements (Continued)

(b) Analyzed by type of security held

	2017	2016
Debt securities	12,988,617	6,573,627
Total	12,988,617	6,573,627

20 Loans and advances to customers

(a) Analyzed by nature

	2017	2016
Corporate loans and advances	112,849,592	110,633,078
Personal loans and advances		
- Residential mortgage	39,977,289	18,878,284
- Personal business loans	20,208,988	19,460,542
- Personal consumption loans	13,494,014	6,127,169
- Others	250,847	193,792
Sub-total	73,931,138	44,659,787
Discounted bills	12,122,219	9,595,672
Gross loans and advances to customers	198,902,949	164,888,537
Less: Provision for impairment losses		
- Individually assessed	(1,864,974)	(1,400,604)
- Collectively assessed	(5,329,140)	(4,940,642)
Total provision for impairment losses	(7,194,114)	(6,341,246)
Net loans and advances to customers	191,708,835	158,547,291

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector

	2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	30,642,527	15.42%	8,059,591
Wholesale and retail trade	18,984,248	9.54%	8,908,906
Renting and business activities	16,556,287	8.32%	7,103,720
Real estate	11,424,047	5.74%	8,449,793
Construction	8,856,739	4.45%	3,318,807
Water, environment and public utility	4,615,113	2.32%	2,014,040
Agriculture, forestry, animal husbandry and fishery	4,283,426	2.15%	975,296
Production and supply of electric power, gas and water	3,920,081	1.97%	1,177,357
Accommodation and catering	3,223,148	1.62%	1,719,112
Mining	2,384,758	1.20%	404,770
Education	2,270,378	1.14%	1,169,119
Transportation, storage and postal services	2,084,724	1.05%	1,060,625
Others	3,604,116	1.82%	1,356,482
Sub-total of corporate loans and advances	112,849,592	56.74%	45,717,618
Personal loans and advances	73,931,138	37.17%	59,973,753
Discounted bills	12,122,219	6.09%	9,735,446
Gross loans and advances to customers	198,902,949	100.00%	115,426,817

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector (Continued)

	2016		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	33,818,433	20.51%	9,307,325
Wholesale and retail trade	21,435,247	13.00%	10,848,261
Construction	9,998,497	6.06%	3,920,949
Real estate	9,586,305	5.81%	8,913,988
Renting and business activities	5,483,633	3.33%	1,782,641
Agriculture, forestry, animal husbandry and fishery	5,461,284	3.31%	1,594,573
Water, environment and public utility	4,933,050	2.99%	1,586,636
Transportation, storage and postal services	3,423,987	2.08%	1,596,005
Mining	3,121,696	1.89%	327,788
Production and supply of electric power, gas and water	2,991,664	1.81%	467,920
Education	2,721,614	1.65%	1,197,314
Accommodation and catering	2,541,138	1.54%	1,664,191
Others	5,116,530	3.11%	1,336,967
Sub-total of corporate loans and advances	110,633,078	67.09%	44,544,558
Personal loans and advances	44,659,787	27.09%	35,162,671
Discounted bills	9,595,672	5.82%	9,394,370
Gross loans and advances to customers	<u>164,888,537</u>	<u>100.00%</u>	<u>89,101,599</u>

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector (Continued)

As at 31 December, 2017 and 31 December, 2016, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	<u>1,325,096</u>	<u>(948,216)</u>	<u>(1,033,908)</u>	<u>(408,092)</u>	<u>168,578</u>

	2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	995,681	(717,183)	(1,054,489)	(602,109)	586,210
Wholesale and retail trade	<u>440,456</u>	<u>(327,976)</u>	<u>(595,008)</u>	<u>(322,452)</u>	<u>100,231</u>

(c) Analyzed by type of collateral

	2017	2016
Unsecured loans	9,202,443	6,671,356
Guaranteed loans	74,273,689	69,115,582
Collateralised	89,632,833	63,991,525
Pledged	25,793,984	25,110,074
Gross loans and advances to customers	198,902,949	164,888,537
Less: Provision for impairment losses		
- Individually assessed	(1,864,974)	(1,400,604)
- Collectively assessed	(5,329,140)	(4,940,642)
Total provision for impairment losses	(7,194,114)	(6,341,246)
Net loans and advances to customers	191,708,835	158,547,291

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(d) Overdue loans analyzed by overdue period

	2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	199,824	10,227	21,952	1,094	233,097
Guaranteed loans	1,466,103	2,705,975	1,426,981	173,440	5,772,499
Collateralised	801,001	1,471,694	1,382,734	95,142	3,750,571
Pledged	29,924	30,436	737,456	—	797,816
Total	2,496,852	4,218,332	3,569,123	269,676	10,553,983
As a percentage of gross loans and advances to customers	1.26%	2.12%	1.79%	0.14%	5.31%

	2016				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	1,656	1,784	50,691	3,196	57,327
Guaranteed loans	2,129,981	869,279	929,117	38,992	3,967,369
Collateralised	1,871,516	789,552	631,821	47,596	3,340,485
Pledged	16,825	44,296	701,350	—	762,471
Total	4,019,978	1,704,911	2,312,979	89,784	8,127,652
As a percentage of gross loans and advances to customers	2.44%	1.03%	1.40%	0.05%	4.92%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses

	2017				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for Which provision are collectively assessed (Note(i))	Impaired loans and advances (Note (ii))		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	195,260,403	1,055,725	2,586,821	198,902,949	1.83%
Less: Provision for impairment losses	(4,498,017)	(831,123)	(1,864,974)	(7,194,114)	
Net loans and advances to customers	<u>190,762,386</u>	<u>224,602</u>	<u>721,847</u>	<u>191,708,835</u>	
	2016				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for Which provision are collectively assessed (Note(i))	Impaired loans and advances (Note (ii))		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	161,826,397	1,090,763	1,971,377	164,888,537	1.86%
Less: Provision for impairment losses	(4,106,671)	(833,971)	(1,400,604)	(6,341,246)	
Net loans and advances to customers	157,719,726	256,792	570,773	158,547,291	

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses (Continued)

Notes:

- (i) Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:
 - Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
 - Collectively, representing portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).
- (iii) The definitions of the loan classifications, stated in Note (i) and (ii) above, are set out in Note 44(a).
- (iv) As at December 31, 2017, impaired loans and advances of the Group for which the impairment allowances were individually assessed amounted to RMB 2,586.82 million (2016: RMB 1,971.38 million). The covered portion of these loans and advances were RMB 943.71 million (2016: RMB 891.22 million). The uncovered portion of these loans and advances were RMB 1,643.11 million (2016: RMB 1,080.16 million). The fair value of collateral held against these loans and advances amounted to RMB 338.59 million (2016: RMB 302.52 million). As at December 31, 2017, the individual impairment allowances made for these loans and advances were RMB 1,864.97 million (2016: RMB 1,400.60 million).

(f) Movements of provision for impairment losses

	2017			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	
As at January 1	4,106,671	833,971	1,400,604	6,341,246
Charge for the year	391,346	167,057	720,598	1,279,001
Release for the year	—	—	(57,088)	(57,088)
Recoveries	—	5,181	99,019	104,200
Write-offs	—	(175,086)	(247,418)	(422,504)
Unwinding of discount	—	—	(50,741)	(50,741)
As at December 31	<u>4,498,017</u>	<u>831,123</u>	<u>1,864,974</u>	<u>7,194,114</u>

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses (Continued)

	2016			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	3,880,276	406,725	1,436,409	5,723,410
Charge for the year	1,138,442	474,791	623,176	2,236,409
Release for the year	(195,653)	—	(46,129)	(241,782)
Transfer out	(716,394)	—	—	(716,394)
Recoveries	—	2,057	234,412	236,469
Write-offs	—	(49,602)	(763,517)	(813,119)
Unwinding of discount	—	—	(83,747)	(83,747)
As at December 31	4,106,671	833,971	1,400,604	6,341,246

(g) Disposal of loans and advances to customers

In 2016, the Group disposed certain loans having credit enhancement support from the Henan Government as part of the Reorganization with gross amount of RMB 8,623.80 million to asset management companies and institutional investors at a consideration of RMB 8,270.01 million. As at December 31, 2017, the Group has received cash of RMB 6,737.00 million, and the remaining consideration was recorded as other assets after discounting based on the repayment schedule (see Note 28).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Available-for-sale financial assets

	Note	2017	2016
Equity investments at cost			
- unlisted	21(a)	23,896	23,896
Debt securities			
- Government		8,227,603	8,528,073
- Policy banks		13,121,945	11,768,748
- Banks and other financial institutions		15,130,459	25,004,081
- Corporates		5,974,810	6,480,321
Subtotal		42,454,817	51,781,223
Listed		8,537,790	9,002,475
Unlisted		33,917,027	42,778,748
Subtotal		42,454,817	51,781,223
Investment management products managed by securities companies and trust plans			
- unlisted		11,177,367	9,389,752
Wealth management products issued by financial institutions			
- unlisted		31,471,850	34,287,700
Investment fund managed by private fund manager	21(b)		
- unlisted		4,691,463	5,522,250
Investment fund managed by financial institutions			
- unlisted		2,295,306	199,000
Investment portfolio managed by financial institutions	21(c)		
- unlisted		2,444,147	1,054,988
Total		94,558,846	102,258,809

Notes:

- Available-for-sale unlisted equity investments which do not have any quoted price in an active market for an identical instrument and whose fair values cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses.
- The underlying assets of investment fund managed by private fund manager are the beneficial rights of certain loans. The principal of the investment fund is guaranteed by an asset management company in the PRC.
- Investment portfolio managed by financial institutions represented investments in funds, bonds, trust schemes, and wealth management products.
- As at December 31, 2017 and 31 December, 2016, certain available-for-sale financial assets were pledged for repurchase agreements (Note 29(a)). No other investments were subject to material restrictions on the realization.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Held-to-maturity investments

Analyzed by type and location of issuers

	Note	2017	2016
Debt securities issued by the following institutions in mainland China			
- Government		12,504,577	11,308,683
- Policy banks		9,243,571	6,443,130
- Banks and other financial institutions		836,206	100,000
- Corporates		1,150,953	—
Total	22(a)	23,735,307	17,851,813
Listed		12,134,737	10,938,704
Unlisted		11,600,570	6,913,109
Total	22(a)	23,735,307	17,851,813
Fair value		22,874,827	17,833,300

Notes:

- (a) As at December 31, 2017 and 2016, certain held-to-maturity investments were pledged as security for repurchase agreements (Note 29(a)).
- (b) The Group did not dispose of material held-to-maturity debt investments prior to their maturity dates for the year ended December 31, 2017 (2016: nil).

23 Debt securities classified as receivables

	2017	2016
Investment management products managed by trust plan	66,216,954	27,847,598
Investment management products managed by securities companies	10,588,900	26,116,289
Investment management products managed by private fund manager	19,985,954	5,373,500
Private debt financing plans	1,900,000	—
Debt securities funds managed by financial institutions	776,916	—
Total	99,468,724	59,337,387
Less: Provision for impairment losses	(704,488)	(659,061)
Net carrying amount	98,764,236	58,678,326

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Investments in subsidiaries

The Group's subsidiaries as at 31 December are as follows:

	Note	2017	2016
Xiping Fortune County Bank Co., Ltd. ("西平財富村鎮銀行股份有限公司")	(a)	176,686	176,686
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("信陽平橋中原村鎮銀行股份有限公司")	(b)	38,341	38,341
Qixian Zhongyuan County Bank Co., Ltd. ("淇縣中原村鎮銀行股份有限公司")	(c)	41,531	41,531
Henan Xinxiang Xinxing County Bank Co., Ltd. ("河南新鄉新興村鎮銀行股份有限公司")	(d)	58,806	58,806
Linzhou Defeng County Bank Co., Ltd. ("林州德豐村鎮銀行股份有限公司")	(e)	29,771	29,771
Puyang Zhongyuan County Bank Co., Ltd. ("濮陽中原村鎮銀行股份有限公司")	(f)	30,736	30,736
Lushi Defeng County Bank Co., Ltd. ("盧氏德豐村鎮銀行股份有限公司")	(g)	32,497	32,497
Xiangcheng Huipu County Bank Co., Ltd. ("襄城匯浦村鎮銀行股份有限公司")	(h)	28,250	28,250
Suiping Hengsheng County Bank Co., Ltd. ("遂平恒生村鎮銀行股份有限公司")	(i)	35,084	27,120
Henan Zhongyuan Consumer Finance Corp., Ltd. ("河南中原消費金融股份有限公司")	(j)	325,000	325,000
Total		796,702	788,738

Notes:

- (a) Xiping Fortune County Bank Co., Ltd. ("Xiping Fortune") was incorporated on December 17, 2009 at Zhumadian, Henan Province, with registered capital of RMB 208.52 million. The principal activities of Xiping Fortune are the provision of corporate and retail banking services. The Bank holds 43.69% of equity interest of Xiping Fortune as at December 31, 2017 (2016: 43.69%). According to the acting in concert arrangement between the Bank and certain other shareholders with 23.95% equity interest of Xiping, Xiping Fortune was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014.
- (b) Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("Xinyang Pingqiao", formerly known as Xinyang Pingqiao Hengfeng County Bank Co., Ltd.) was incorporated on December 13, 2010 at Xinyang, Henan Province, with registered capital of RMB 69.60 million. The principal activities of Xinyang Pingqiao are the provision of corporate and retail banking services. The Bank holds 51.72% of equity interest and voting rights of Xinyang Pingqiao as at December 31, 2017 (2016: 51.72%).
- (c) Qixian Zhongyuan County Bank Co., Ltd. ("Qixian Zhongyuan", formerly known as Qixian Heyin County Bank Co., Ltd.) was incorporated on December 23, 2010 at Hebi, Henan Province, with registered capital of RMB 50.00 million. The principal activities of Qixian Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Qixian Zhongyuan as at December 31, 2017 (2016: 51%).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Investments in subsidiaries (Continued)

Notes: (Continued)

- (d) Henan Xinxiang Xinxing County Bank Co., Ltd. ("Xinxiang Xinxing") was incorporated on March 23, 2010 at Xinxiang, Henan Province, with registered capital of RMB 130.00 million. The principal activities of Xinxiang Xinxing are the provision of corporate and retail banking services. The Bank holds 31.54% of equity interest of Xinxiang Xinxing as at December 31, 2017 (2016: 31.54%). According to the acting in concert arrangement between the Bank and certain other shareholders with 21.92% equity interest of Xinxiang Xinxing, Xinxiang Xinxing was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014.
- (e) Linzhou Defeng County Bank Co., Ltd. ("Linzhou Defeng") was incorporated on September 30, 2011 at Linzhou, Henan Province, with registered capital of RMB 75.00 million. The principal activities of Linzhou Defeng are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Linzhou Defeng as at December 31, 2017 (2016: 51%).
- (f) Puyang Zhongyuan County Bank Co., Ltd. ("Puyang Zhongyuan", formerly known as Puyang Heyin County Bank Co., Ltd.) was incorporated on March 16, 2012 at Puyang, Henan Province, with registered capital of RMB 58.75 million. The principal activities of Puyang Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Puyang Zhongyuan as at December 31, 2017 (2016: 51%).
- (g) Lushi Defeng County Bank Co., Ltd. ("Lushi Defeng") was incorporated on May 15, 2012 at Sanmenxia, Henan Province, with registered capital of RMB 60.00 million. The principal activities of Lushi Defeng are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Lushi Defeng as at December 31, 2017 (2016: 51%).
- (h) Xiangcheng Huipu County Bank Co., Ltd. ("Xiangcheng Huipu") was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB 61.00 million. The principal activities of Xiangcheng Huipu are the provision of corporate and retail banking services. The Bank holds 41% of equity interest of Xiangcheng Huipu as at December 31, 2017 (2016: 41%). According to the acting in concert arrangement between the Bank and certain other shareholders with 10% equity interest of Xiangcheng Huipu, Xiangcheng Huipu was deemed to be controlled by the Bank and became a subsidiary of the Bank since 2015.
- (i) Suiping Hengsheng County Bank Co., Ltd. ("Suiping Hengsheng") was incorporated on March 12, 2012 at Zhumadian, Henan Province, with registered capital of RMB 56.15 million. The principal activities of Suiping Hengsheng are the provision of corporate and retail banking services. The Bank holds 51.02% of equity interest of Suiping Hengsheng as at December 31, 2017 (2016: 45%). According to the acting in concert arrangement between the Bank and certain other shareholders with 33% equity interest of Suiping Hengsheng, Suiping Hengsheng was deemed to be controlled by the Bank and became a subsidiary of the Bank since 2015.
- (j) Henan Zhongyuan Consumer Finance Corp., Ltd. ("Consumer Finance") was incorporated on December 29, 2016 at Zhengzhou, Henan Province, with registered capital of RMB 500.00 million. The principal activities of Consumer Finance is the provision loans for consumption. The Bank holds 65% of equity interest and voting rights of Consumer Finance as at December 31, 2017 (2016: 65%).

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(Expressed in thousands of Renminbi, unless otherwise stated)

25 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Cost							
At January 1, 2016	5,173,954	164,314	760,353	59,207	381,509	436,787	6,976,124
Additions	297,622	—	205,359	617	63,714	63,180	630,492
Disposals	(121,774)	(5,821)	(29,302)	(27,137)	(81,790)	—	(265,824)
Transfers out of construction in progress	—	—	—	—	—	(49,170)	(49,170)
As at December 31, 2016	5,349,802	158,493	936,410	32,687	363,433	450,797	7,291,622
Additions	37,364	—	172,992	402	51,278	112,054	374,090
Disposals	(34,008)	(34,422)	(14,626)	(3,296)	(1,692)	—	(88,044)
Transfers out of construction in progress	—	—	—	—	—	(13,457)	(13,457)
As at December 31, 2017	5,353,158	124,071	1,094,776	29,793	413,019	549,394	7,564,211
Accumulated depreciation							
At January 1, 2016	(1,249,234)	(59,814)	(535,600)	(46,707)	(186,716)	—	(2,078,071)
Additions	(309,280)	(11,092)	(127,250)	(2,458)	(30,787)	—	(480,867)
Disposals	12,120	2,129	23,700	21,941	6,148	—	66,038
As at December 31, 2016	(1,546,394)	(68,777)	(639,150)	(27,224)	(211,355)	—	(2,492,900)
Additions	(298,993)	(8,358)	(148,146)	(2,068)	(37,343)	—	(494,908)
Disposals	12,733	17,927	8,245	3,033	1,327	—	43,265
As at December 31, 2017	(1,832,654)	(59,208)	(779,051)	(26,259)	(247,371)	—	(2,944,543)
Impairment							
At January 1, 2016	(29,771)	—	(2,505)	(1,043)	(2,917)	—	(36,236)
Disposals	21,295	—	42	760	885	—	22,982
As at December 31, 2016	(8,476)	—	(2,463)	(283)	(2,032)	—	(13,254)
Disposals	92	—	60	54	2	—	208
As at December 31, 2017	(8,384)	—	(2,403)	(229)	(2,030)	—	(13,046)
Net book value							
As at December 31, 2016	3,794,932	89,716	294,797	5,180	150,046	450,797	4,785,468
As at December 31, 2017	3,512,120	64,863	313,322	3,305	163,618	549,394	4,606,622

The carrying amount of the premises with incomplete title deeds as December 31, 2017 was RMB 1,061.60 million (2016: RMB 1,745.61 million). The Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of the Group are of the opinion that there would be no significant cost in obtaining the title deeds.

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(Expressed in thousands of Renminbi, unless otherwise stated)

25 Property and equipment (Continued)

The net book values of premises as at December 31 are analyzed by the remaining terms of the leases as follows:

	2017	2016
Held in mainland China		
- Long-term leases (over 50 years)	1,138,337	834,007
- Medium-term leases (10 - 50 years)	1,701,974	2,896,180
- Short-term leases (less than 10 years)	671,809	64,745
Total	3,512,120	3,794,932

The net book value of investment properties as at December 31 are analyzed by the remaining terms of the leases as follows:

	2017	2016
Held in mainland China		
- Medium-term leases (10 - 50 years)	64,863	89,716

26 Deferred tax assets

(a) Analyzed by nature

	2017		2016	
	Deductible (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/(liabilities):				
Allowance for impairment losses	7,357,152	1,839,288	6,028,684	1,507,171
Staff cost payable	849,284	212,321	1,035,244	258,811
Supplemental retirement benefits	123,016	30,754	148,544	37,136
Fair value changes of financial assets	1,369,184	342,296	833,160	208,290
Deferred income	429,832	107,458	220,280	55,070
Assets appraisal and related depreciation	(2,044,228)	(511,057)	(2,228,136)	(557,034)
Others	99,432	24,858	80,520	20,130
Net balances	8,183,672	2,045,918	6,118,296	1,529,574

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred tax assets (Continued)

(b) Movements of deferred tax assets

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Deferred income	Assets appraisal and related depreciation	Others	Net balance of deferred tax assets
January 1, 2016	1,351,593	229,743	43,714	(42,468)	56,767	(622,058)	10,830	1,028,121
Recognized in profit or loss	155,578	29,068	(6,578)	34,320	(1,697)	65,024	9,300	285,015
Recognized in other comprehensive income	—	—	—	216,438	—	—	—	216,438
December 31, 2016	1,507,171	258,811	37,136	208,290	55,070	(557,034)	20,130	1,529,574
Recognized in profit or loss	332,117	(46,490)	(6,382)	12,655	52,388	45,977	4,728	394,993
Recognized in other comprehensive income	—	—	—	121,351	—	—	—	121,351
December 31, 2017	<u>1,839,288</u>	<u>212,321</u>	<u>30,754</u>	<u>342,296</u>	<u>107,458</u>	<u>(511,057)</u>	<u>24,858</u>	<u>2,045,918</u>

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the reporting period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

27 Goodwill

	Goodwill
Cost:	
At December 31, 2016 and 2017	<u>468,397</u>
Accumulated impairment losses:	
At December 31, 2016 and 2017	<u>—</u>
Carrying amount:	
At December 31, 2016 and 2017	<u>468,397</u>

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Goodwill (Continued)

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including corporate banking, retail banking and financial markets business. The carrying amounts of goodwill allocated to these units are as follows:

	2017	2016
Corporate banking	309,219	309,219
Retail banking	97,029	97,029
Financial markets business	62,149	62,149
Total	468,397	468,397

The recoverable amounts of corporate banking unit, retail banking unit and financial markets business unit have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 13.05% at December 31, 2017 (2016: 13.00%). Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate which is used are pre-tax and reflect specific risks relating to the CGUs.

At the end of the reporting period, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of these CGUs to exceed its recoverable amount.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Other assets

	Note	2017	2016
Interests receivable	28(a)	3,516,149	2,514,570
Receivables from disposal of loans	20(g)	1,387,381	1,595,120
Intangible assets	28(b)	1,264,170	1,235,603
Reposessed assets		1,114,820	758,214
Leasehold improvements		464,401	467,662
Other receivables		843,806	698,510
Total		8,590,727	7,269,679

(a) Interests receivable

	2017	2016
Interests receivable arising from:		
Investments	2,236,107	1,751,362
Loans and advances to customers	1,188,808	693,721
Others	91,234	69,487
Total	3,516,149	2,514,570

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Other assets (Continued)

(b) Intangible assets

	Land use rights	Computer software	Total
Cost			
As at January 1, 2016	713,275	253,634	966,909
Additions	564,198	128,413	692,611
Disposals	(87,427)	(3,204)	(90,631)
As at December 31, 2016	1,190,046	378,843	1,568,889
Additions	5,860	138,284	144,144
Disposals	—	(10,997)	(10,997)
As at December 31, 2017	1,195,906	506,130	1,702,036
Accumulated amortization			
As at January 1, 2016	(77,647)	(172,238)	(249,885)
Additions	(27,722)	(56,319)	(84,041)
Disposals	9,299	1,856	11,155
As at December 31, 2016	(96,070)	(226,701)	(322,771)
Additions	(34,449)	(72,521)	(106,970)
Disposals	—	2,282	2,282
As at December 31, 2017	(130,519)	(296,940)	(427,459)
Impairment			
As at January 1, 2016	(9,097)	(1,418)	(10,515)
As at December 31, 2016	(9,097)	(1,418)	(10,515)
Disposals	—	108	108
As at December 31, 2017	(9,097)	(1,310)	(10,407)
Net book value			
As at December 31, 2017	1,056,290	207,880	1,264,170
As at December 31, 2016	1,084,879	150,724	1,235,603

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

29 Pledged assets

(a) Assets pledged as collateral

	Note	2017	2016
For repurchase agreements			
- Discounted bills		850,000	823,400
- Financial assets at fair value through profit or loss	18	905,488	3,626,089
- Available-for-sale financial assets	21	22,442,936	17,090,621
- Held-to-maturity investments	22	19,096,476	6,073,247
Total		43,294,900	27,613,357

Financial assets pledged by the Group as collaterals for liabilities which are for repurchase agreements.

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at December 31, 2017, the carrying amounts of the received pledged assets is RMB 13,949.80 million (2016: RMB 6,583.63 million).

30 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	2017	2016
Deposits in mainland China		
- Banks	26,028,927	36,401,414
- Other financial institutions	13,621,905	8,553,360
Total	39,650,832	44,954,774

31 Placements from banks and other financial institutions

	2017	2016
Deposits in mainland China		
- Banks	5,085,684	10,400,000
- Other financial institutions	631,421	—
Total	5,717,105	10,400,000

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

	2017	2016
Deposits in mainland China		
- Banks	38,391,391	26,207,364
- Other financial institutions	2,418,457	1,373,203
Total	40,809,848	27,580,567

(b) Analyzed by collateral

	2017	2016
Debt securities	39,960,202	26,757,633
Discounted bills	849,646	822,934
Total	40,809,848	27,580,567

33 Deposits from customers

	2017	2016
Demand deposits		
- Corporate customers	124,625,366	87,606,551
- Individual customers	48,355,209	31,941,420
Sub-total	172,980,575	119,547,971
Time deposits		
- Corporate customers	31,998,949	29,034,685
- Individual customers	76,287,727	71,549,624
Sub-total	108,286,676	100,584,309
Pledged deposits		
- Acceptances	17,611,171	19,988,120
- Letters of credit and guarantees	6,841,263	4,396,834
- Others	645,995	463,984
Sub-total	25,098,429	24,848,938
Inward and outward remittances	342,604	371,536
Total	306,708,284	245,352,754

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Debt securities issued

	Note	2017	2016
Interbank deposits issued	34(a)	74,128,630	57,387,758
Total		74,128,630	57,387,758

Note:

- (a) In 2017, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB 131,540.00 million and duration between 1-12 months. The coupon rates ranged from 3.7% to 5.8% per annum.

In 2016, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB 147,670.00 million and duration between 3-12 months. The coupon rates ranged from 2.5% to 5.3% per annum.

As at December 31, 2017, the fair value of interbank deposits issued was RMB 73,976.14 million (2016: RMB 57,244.37 million).

35 Other liabilities

	Note	2017	2016
Interests payable	35(a)	2,965,736	2,406,441
Payment and collection clearance accounts		774,482	1,759,577
Accrued staff cost	35(b)	1,658,664	1,601,688
Other tax payable		274,380	112,420
Dividend payable		189,898	229,015
Litigations and disputes provision		25,966	25,966
Other payable		687,603	496,031
Total		6,576,729	6,631,138

(a) Interests payable

	2017	2016
Interests payable arising from:		
Deposits from customers	2,544,173	2,229,126
Deposits from banks and other financial institutions	405,178	154,399
Repurchase agreements	16,318	22,132
Others	67	784
Total	2,965,736	2,406,441

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Other liabilities (Continued)

(b) Accrued staff cost

	Note	2017	2016
Salary, bonuses and allowances payable		1,420,685	1,335,269
Social insurance payable		32,296	44,563
Housing allowances payable		3	1,437
Labor union fee, staff and workers' education fee		79,993	70,720
Supplementary retirement benefits payable	(1)	125,687	149,699
Total		1,658,664	1,601,688

(1) Supplementary retirement benefits

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Group's eligible employees.

(i) The balances of supplementary retirement benefits are as follows:

	2017	2016
Present value of early retirement plan	117,722	143,361
Supplementary retirement plan	7,965	6,338
Total	125,687	149,699

(ii) The movements of supplementary retirement benefits are as follows:

	2017	2016
As at January 1	149,699	176,556
Benefits paid during the year	(24,297)	(30,929)
Defined benefit cost recognized in profit or loss	(1,229)	4,617
Defined benefit cost recognized in other comprehensive income	1,514	(545)
As at December 31	125,687	149,699

Interest cost was recognized in staff costs, see Note 9.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Other liabilities (Continued)

(b) Accrued staff cost (Continued)

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan

	2017	2016
Discount rate	3.75%	3.00%
Retired age		
- Male	60	60
- Female	55	55
Annual increase rate of internal salary	4.50%	4.50%

Supplementary retirement plan

	2017	2016
Discount rate	4.25%	3.75%
Retired age		
- Male	60	60
- Female	55	55

(iv) Sensitivity analysis:

Early retirement plan

	2017		2016	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(4,762)	5,171	(6,175)	6,735

Supplementary retirement plan

	2017		2016	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(1,438)	1,901	(1,090)	1,162

Although the analysis does not take account of the full distribution of cash flows expected under the supplementary retirement benefits, it does provide an approximation of the sensitivity of the assumptions shown.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Share capital

Share capital of the Group as at December 31, 2017 and 31 December, 2016 represented share capital of the Bank, which is fully paid.

	Note	2017	2016
Ordinary shares in Mainland China		16,280,000	16,625,000
Ordinary shares listed in Hong Kong (H-share)	36(a)	3,795,000	—
Total		20,075,000	16,625,000

Notes:

- (a) On July 19, 2017, the Bank issued 3,000.00 million H-shares with a par value of RMB 1 at an offering price of HKD 2.45 per share (the “H-share offering”). On August 15, 2017, the Bank exercised the over-allotment option and issued 450.00 million H-shares with a nominal value of RMB 1.00 at HKD 2.45 per share. The capital contribution was verified by KPMG Huazhen LLP.

Immediately following the H-share offering, 345 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited. The H-shares rank pari passu in all respects with the existing ordinary shares in Mainland China including the right to receive all dividends and distributions declared or made.

37 Reserves

(a) Capital reserve

	Note	2017	2016
Share premium		14,477,471	10,851,269
Changes in fair value recognized in other comprehensive income	(i)	(938,921)	(574,870)
Changes on remeasurement of defined benefit liabilities	(ii)	(2,670)	(1,156)
Changes in ownership in subsidiaries without changes in control		(361)	(777)
Total		13,535,519	10,274,466

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Reserves (Continued)

(a) Capital reserve (Continued)

(i) Investment revaluation reserve

	2017	2016
As at January 1	(574,870)	74,444
Changes in fair value recognised in other comprehensive income	(839,722)	(895,372)
Transfer to profit or loss upon disposal	354,320	29,620
Less: deferred income tax	121,351	216,438
Total	(938,921)	(574,870)

(ii) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	2017	2016
As at January 1	(1,156)	(1,701)
Changes in fair value recognised in other comprehensive income	(1,514)	545
Total	(2,670)	(1,156)

(b) Surplus reserve

The surplus reserve at the end of reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank appropriated an amount of RMB 381.00 million to the statutory surplus reserve fund for the year of 2017 (2016: RMB 334.72 million).

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Reserves (Continued)

(c) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)” issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve amounted to RMB 6,386.31 million as at December 31, 2017 (2016: RMB 5,134.78 million).

38 Retained earnings

(a) Appropriation of profits

On March 27, 2018, the Board reviewed and proposed the profit appropriations for the year ended December 31, 2017 is listed as follows:

Appropriation of statutory surplus reserve amounted to RMB 381.00 million; and

Appropriation of general reserve amounted to RMB 1,251.54 million.

Declaration of cash dividend of RMB 0.71 per 10 shares before tax and in aggregation amount of RMB 1,425 million to all shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

Considered and passed by the Bank's Annual General Meeting held on April 6, 2017, the shareholders approved the profit distribution plan for the year ended December 31, 2016:

- Appropriation of statutory surplus reserve amounted to RMB 334.72 million; and
- Appropriation of general reserve amounted to RMB 2,925.63 million.

The surplus reserve represented statutory surplus reserve fund.

As at December 31, 2017, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB 36.06 million of surplus reserve made by subsidiaries (2016: RMB 28.65 million).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Retained earnings (Continued)

(b) Movements in components of equity (Continued)

Details of the changes in the Bank's individual components of equity for the year 2017 and 2016 are set out below.

	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at January 1, 2017	16,625,000	10,275,243	877,063	5,080,799	1,833,444	34,691,549
Changes in equity for the year:						
Net profit for the year	—	—	—	—	3,810,023	3,810,023
Other comprehensive income	—	(365,565)	—	—	—	(365,565)
Total comprehensive income	—	(365,565)	—	—	3,810,023	3,444,458
Issue of H-shares	3,450,000	3,626,202	—	—	—	7,076,202
Appropriation to surplus reserve	—	—	381,002	—	(381,002)	—
Appropriation to general reserve	—	—	—	1,239,947	(1,239,947)	—
Balance at December 31, 2017	<u>20,075,000</u>	<u>13,535,880</u>	<u>1,258,065</u>	<u>6,320,746</u>	<u>4,022,518</u>	<u>45,212,209</u>

	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at January 1, 2016	16,625,000	10,924,012	542,346	2,172,037	2,644,126	32,907,521
Changes in equity for the year:						
Net profit for the year	—	—	—	—	3,347,173	3,347,173
Other comprehensive income	—	(648,769)	—	—	—	(648,769)
Total comprehensive income	—	(648,769)	—	—	3,347,173	2,698,404
Appropriation to surplus reserve	—	—	334,717	—	(334,717)	—
Appropriation to general reserve	—	—	—	2,908,762	(2,908,762)	—
Appropriation to shareholders	—	—	—	—	(914,376)	(914,376)
Balance at December 31, 2016	<u>16,625,000</u>	<u>10,275,243</u>	<u>877,063</u>	<u>5,080,799</u>	<u>1,833,444</u>	<u>34,691,549</u>

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statements of financial position in which relevant assets are recognized as at December 31:

	2017	
	Carrying amount	Maximum exposure
Available-for-sale financial assets	49,635,986	49,635,986
Debt securities classified as receivables	98,764,236	98,764,236
Total	<u>148,400,222</u>	<u>148,400,222</u>

	2016	
	Carrying amount	Maximum exposure
Available-for-sale financial assets	49,398,702	49,398,702
Debt securities classified as receivables	58,678,326	58,678,326
Total	<u>108,077,028</u>	<u>108,077,028</u>

As at December 31, 2017 and 31 December, 2016, the carrying amounts of the unconsolidated structural entities are equal to the maximum exposures.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Involvement with unconsolidated structured entities (Continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2017 and 2016, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at December 31, 2017, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB 32,604.62 million (2016: RMB 21,956.22 million).

(c) Unconsolidated structure entities sponsored by the Group during the years which the Group does not consolidate but have an interest in as at December 31:

For the year ended December 31, 2017, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB 50,697.91 million (2016: RMB 38,031.23 million).

40 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the CBRC. The capital of the Group is divided into core tier-one capital, other tier-one capital and tier-two capital.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Capital management (Continued)

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Capital management (Continued)

The Group's capital adequacy ratios as at December 31 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBRC are as follows:

	2017	2016
Total core tier-one capital		
- Share capital	20,075,000	16,625,000
- Qualifying portion of capital reserve	13,535,519	10,274,466
- Surplus reserve	1,258,065	877,063
- General reserve	6,386,313	5,134,776
- Retained earnings	4,014,023	1,807,859
- Qualifying portions of non-controlling interests	301,440	385,683
Core tier-one capital deductions		
- Goodwill	(468,397)	(468,397)
- Other intangible assets other than land use rights	(207,880)	(141,628)
Net core tier-one capital	44,894,083	34,494,822
Other tier-one capital	39,828	39,629
Net tier-one capital	44,933,911	34,534,451
Tier-two capital		
- Surplus provision for loan impairment	3,551,568	3,279,105
- Qualifying portions of non-controlling interests	83,545	153,751
Net capital base	48,569,024	37,967,307
Total risk weighted assets	369,459,199	307,001,851
Core tier-one capital adequacy ratio	12.15%	11.24%
Tier-one capital adequacy ratio	12.16%	11.25%
Capital adequacy ratio	13.15%	12.37%

41 Notes to the consolidated cash flow statement

(a) Net (decrease)/increase in cash and cash equivalents

	2017	2016
Cash and cash equivalents as at December 31	43,080,066	43,741,320
Less: Cash and cash equivalents as at January 1	43,741,320	40,807,410
Net (decrease)/increase in cash and cash equivalents	(661,254)	2,933,910

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Notes to the consolidated cash flow statement (Continued)

(b) Cash and cash equivalents

	2017	2016
Cash on hand	1,523,007	1,292,479
Deposits with the central bank	21,112,137	15,394,722
Deposits with banks and other financial institutions	6,792,950	12,780,492
Financial assets held under resale agreements	12,988,617	6,573,627
Placement with banks and other financial institutions	663,355	7,700,000
Total	43,080,066	43,741,320

42 Related party relationships and transactions

(a) Relationship of related parties:

(i) Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	2017	2016
Henan Investment Group Co., Ltd.	7.01%	9.02%
Henan Energy and Chemical Engineering Group Co., Ltd. (*)	6.48%	8.32%
Yongcheng Coal and Electricity Holdings Group Co., Ltd.	5.76%	7.42%
Henan Shengrun Holdings Co., Ltd.	3.75%	4.53%

* As at December 31, 2017, the interest in the Bank owned by Henan Energy and Chemical Engineering Group Co., Ltd. includes interests owned by Yongcheng Coal and Electricity Holdings Group Co., Ltd., Henan Guolong Mineral Construction Co., Ltd., Yongcheng Jingchuang Industry Co., Ltd., Shangqiu Tianlong Investment Co., Ltd., Anyang Chemical Engineering Group Co., Ltd., Henan Energy and Chemical Engineering Group Finance Co., Ltd., Kaifeng Tieta Rubber (Group) Co., Ltd..

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Related party relationships and transactions (Continued)

(a) Relationship of related parties: (Continued)

(ii) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 24.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 42 (a) or their controlling shareholders.

(b) Related party transactions and balances:

(i) Transactions between the Bank and major shareholders:

	2017	2016
Transactions during the year:		
Interest income	88,365	93,215
Interest expense	1,764	4,428
Balances at end of the year:		
Loans and advances to customers	1,100,000	800,000
Debt securities classified as receivables	1,400,000	1,400,000
Held-to-maturity investments	326,710	—
Interests receivable	10,752	6,453
Deposits from customers	194,900	422,784
Interests payable	23	50

(ii) Transactions between the Bank and subsidiaries:

The subsidiaries of the Bank are its related parties. The transactions between the Bank and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Related party relationships and transactions (Continued)

(b) Related party transactions and balances: (Continued)

(iii) Transactions between the Bank and other related parties:

	2017	2016
Transactions during the year:		
Interest income	192,389	109,768
Interest expense	89,516	35,431
Operating expense	8,053	7,233
Balances at end of the year:		
Loans and advances to customers	2,703,434	1,722,947
Debt securities classified as receivables	2,327,500	1,520,000
Interests receivable	8,757	4,600
Deposits from customers	3,610,435	960,781
Interests payable	26,896	9,027
Deposits from banks and other financial institutions	870,338	195,666

(c) 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 Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	2017	2016
Transactions during the year:		
Interest income	739	753
Interest expense	59	34
Balances at end of the year:		
Loans and advances to customers	17,434	17,947
Interests receivable	26	26
Deposits from customers	9,949	10,686
Interests payable	12	3

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Related party relationships and transactions (Continued)

(c) Key management personnel (Continued)

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	2017	2016
Salaries and other emoluments	17,282	10,494
Discretionary bonuses	35,753	29,767
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	2,991	1,509
Total	56,026	41,770

(d) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	2017	2016
Aggregate amount of relevant loans outstanding at the end of the year	17,434	17,947
Maximum aggregate amount of relevant loans outstanding during the year	17,434	17,947

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2017 and 31 December, 2016.

43 Segment reporting

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

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting (Continued)

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

Financial markets business

This segment covers the Group's financial markets business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial markets business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the year 2017 and 2016 to acquire property and equipment, intangible assets and other long-term assets.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting (Continued)

	2017				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	9,238,695	1,294,505	1,668,068	—	12,201,268
Internal net interest (expense)/ income	(1,411,001)	1,838,681	(427,680)	—	—
Net interest income	7,827,694	3,133,186	1,240,388	—	12,201,268
Net fee and commission income	542,378	31,168	196,024	—	769,570
Net trading losses	—	—	(156,956)	(222,329)	(379,285)
Net losses arising from investment securities	—	—	(375)	—	(375)
Other operating income	10,586	9,576	846	203,276	224,284
Operating income	8,380,658	3,173,930	1,279,927	(19,053)	12,815,462
Operating expenses	(2,887,365)	(2,077,522)	(433,996)	(360,142)	(5,759,025)
Impairment losses on assets	(1,048,617)	(663,663)	(319,663)	3,862	(2,028,081)
Profit/(loss) before tax	4,444,676	432,745	526,268	(375,333)	5,028,356
Segment assets	238,398,082	98,362,094	180,670,467	2,513,265	519,943,908
Deferred tax assets	—	—	—	2,045,918	2,045,918
Total assets	238,398,082	98,362,094	180,670,467	4,559,183	521,989,826
Segment liabilities	156,448,248	155,584,258	162,615,166	1,251,543	475,899,215
Total liabilities	156,448,248	155,584,258	162,615,166	1,251,543	475,899,215
Other segment information					
- Depreciation and amortization	415,106	150,283	76,190	80,912	722,491
- Capital expenditure	302,164	114,726	55,411	81,088	553,389

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting (Continued)

	2016				Total
	Corporate banking	Retail banking	Financial markets business	Others	
Operating income					
External net interest income	8,497,353	636,981	2,068,993	—	11,203,327
Internal net interest (expense)/income	(1,616,766)	2,051,422	(434,656)	—	—
Net interest income	6,880,587	2,688,403	1,634,337	—	11,203,327
Net fee and commission income	372,275	76,785	—	—	449,060
Net trading (losses)/gain	—	—	(79,959)	8,242	(71,717)
Net gains arising from investment securities	—	—	9,088	—	9,088
Other operating income	8,248	2,849	145	202,738	213,980
Operating income	7,261,110	2,768,037	1,563,611	210,980	11,803,738
Operating expenses	(1,551,286)	(2,184,438)	(339,488)	(1,061,163)	(5,136,375)
Impairment losses on assets	(1,364,838)	(633,463)	(229,141)	(19,313)	(2,246,755)
Profit/(loss) before tax	4,344,986	(49,864)	994,982	(869,496)	4,420,608
Segment assets	178,167,940	66,027,463	181,576,549	5,769,913	431,541,865
Deferred tax assets	—	—	—	1,529,574	1,529,574
Total assets	178,167,940	66,027,463	181,576,549	7,299,487	433,071,439
Segment liabilities	153,272,387	106,492,255	134,988,907	2,819,251	397,572,800
Total liabilities	153,272,387	106,492,255	134,988,907	2,819,251	397,572,800
Other segment information					
- Depreciation and amortization	188,576	318,402	16,213	148,013	671,204
- Capital expenditure	379,174	640,217	32,600	297,613	1,349,604

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collaterals or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Financial markets business

The Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each reporting period.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Financial markets business (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows:

	2017			
	Loans and advances	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Investments (*)
Impaired				
Individually assessed				
gross amount	2,586,821	19,027	—	1,259,491
Provision for impairment losses	(1,864,974)	(19,027)	—	(236,434)
Sub-total	721,847	—	—	1,023,057
Collectively assessed				
gross amount	1,055,725	—	—	—
Provision for impairment losses	(831,123)	—	—	—
Sub-total	224,602	—	—	—
Overdue but not impaired				
Less than three months (inclusive)	2,486,554	—	—	—
Between three months and six months (inclusive)	1,552,578	—	—	—
Between six months and one year (inclusive)	1,715,538	—	—	—
More than one year	1,159,768	—	—	—
Gross amount	6,914,438	—	—	—
Provision for impairment losses	(1,277,246)	—	—	—
Sub-total	5,637,192	—	—	—
Neither overdue nor impaired				
Gross amount	188,345,965	10,287,106	12,988,617	226,345,302
Provision for impairment losses	(3,220,771)	—	—	(468,054)
Sub-total	185,125,194	10,287,106	12,988,617	225,877,248
Total	191,708,835	10,287,106	12,988,617	226,900,305

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Financial markets business (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

	2016			
	Loans and advances	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Investments (*)
Impaired				
Individually assessed gross amount	1,971,377	19,661	—	1,650,000
Provision for impairment losses	(1,400,604)	(19,661)	—	(330,406)
Sub-total	570,773	—	—	1,319,594
Collectively assessed gross amount	1,090,763	—	—	—
Provision for impairment losses	(833,971)	—	—	—
Sub-total	256,792	—	—	—
Overdue but not impaired				
Less than three months (inclusive)	3,869,772	—	—	—
Between three months and six months (inclusive)	223,527	—	—	—
Between six months and one year (inclusive)	106,600	—	—	—
More than one year	869,683	—	—	—
Gross amount	5,069,582	—	—	—
Provision for impairment losses	(895,782)	—	—	—
Sub-total	4,173,800	—	—	—
Neither overdue nor impaired				
Gross amount	156,756,815	21,530,492	6,573,627	181,981,183
Provision for impairment losses	(3,210,889)	—	—	(328,655)
Sub-total	153,545,926	21,530,492	6,573,627	181,652,528
Total	158,547,291	21,530,492	6,573,627	182,972,122

* Investments comprise financial assets at fair value through profit or loss, available-for-sale debt investments, held-to-maturity investments and debt securities classified as receivables.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Financial markets business (Continued)

- (ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

The fair value of collaterals held against loans and advances overdue but not impaired at December 31, 2017 amounted to RMB 4,570.64 million (2016: RMB 5,419.07 million). The fair value of collaterals held against loans and advances impaired at December 31, 2017 amounted to RMB 462.90 million (2016: RMB 568.84 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

- (iii) Rescheduled loans and advances to customers

The Group has none of rescheduled loans and advances to customers at December 31, 2017 and 2016.

- (iv) Amounts due from banks and other financial institutions

The amounts due from banks and non-bank financial institutions including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institution. Neither overdue nor impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

	2017	2016
Neither overdue nor impaired		
Ratings		
- A to AAA	20,350,998	26,196,209
- B to BBB	2,924,725	1,907,910
Total	23,275,723	28,104,119

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Financial markets business (Continued)

(v) Debt securities

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at December 31 are as follows:

	2017	2016
Neither overdue nor impaired		
Ratings		
- AAA	2,687,416	3,767,587
- AA- to AA+	1,456,174	1,540,759
- A-to A+	—	646,785
- unrated	71,912,346	67,884,975
Total	76,055,936	73,840,106

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions. The Finance Management Department is responsible for monitoring and managing the interest rate risk, the Trade Finance Department is responsible for monitoring and managing the foreign exchange risk on a daily basis. The Finance Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Repricing risk

Repricing risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The Finance Management Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the financial markets business’ investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios’ fair value given a 100 basis points (1%) movement in the interest rates.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

- (i) The following tables indicate the assets and liabilities as at December 31 by the expected next repricing dates or by maturity dates, depending on which is earlier:

	2017					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
Assets						
Cash and deposits with the central bank	62,846,396	—	—	—	1,523,007	64,369,403
Deposits with banks and other financial institutions	6,792,950	2,130,801	—	—	—	8,923,751
Placement with banks and other financial institutions	663,355	700,000	—	—	—	1,363,355
Financial assets held under resale agreements	12,988,617	—	—	—	—	12,988,617
Loans and advances to customers (Note (i))	142,246,905	39,894,905	8,840,719	726,306	—	191,708,835
Investments (Note (ii))	54,605,033	56,135,528	80,351,359	35,808,385	23,896	226,924,201
Others	—	—	—	—	15,711,664	15,711,664
Total assets	280,143,256	98,861,234	89,192,078	36,534,691	17,258,567	521,989,826
Liabilities						
Borrowing from the Central bank	688,924	633,963	—	—	—	1,322,887
Deposits from banks and other financial institutions	22,646,832	16,754,000	250,000	—	—	39,650,832
Placement from banks and other financial institutions	4,074,729	1,642,376	—	—	—	5,717,105
Financial assets sold under repurchase agreements	40,809,848	—	—	—	—	40,809,848
Deposits from customers	219,974,244	57,066,949	28,177,768	20,426	1,468,897	306,708,284
Debt securities issued	32,829,370	41,299,260	—	—	—	74,128,630
Others	—	—	—	—	7,561,629	7,561,629
Total liabilities	321,023,947	117,396,548	28,427,768	20,426	9,030,526	475,899,215
Asset-liability gap	(40,880,691)	(18,535,314)	60,764,310	36,514,265	8,228,041	46,090,611

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

- (i) The following tables indicate the assets and liabilities as at December 31 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)

	2016					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	48,078,414	—	—	—	1,292,479	49,370,893
Deposits with banks and other financial institutions	12,780,492	50,000	—	—	—	12,830,492
Placement with banks and other financial institutions	7,700,000	1,000,000	—	—	—	8,700,000
Financial assets held under resale agreements	6,573,627	—	—	—	—	6,573,627
Loans and advances to customers (Note (ii))	63,963,131	82,925,251	10,911,050	747,859	—	158,547,291
Investments (Note (ii))	53,475,106	55,051,732	53,104,955	21,340,329	23,896	182,996,018
Others	—	—	—	—	14,053,118	14,053,118
Total assets	<u>192,570,770</u>	<u>139,026,983</u>	<u>64,016,005</u>	<u>22,088,188</u>	<u>15,369,493</u>	<u>433,071,439</u>
Liabilities						
Borrowing from the Central bank	2,634,048	1,883,000	—	—	—	4,517,048
Deposits from banks and other financial institutions	33,999,274	10,705,500	250,000	—	—	44,954,774
Placement from banks and other financial institutions	10,400,000	—	—	—	—	10,400,000
Financial assets sold under repurchase agreements	27,580,567	—	—	—	—	27,580,567
Deposits from customers	168,119,458	53,149,500	23,612,895	20,936	449,965	245,352,754
Debt securities issued	21,177,923	36,209,835	—	—	—	57,387,758
Others	—	—	—	—	7,379,899	7,379,899
Total liabilities	<u>263,911,270</u>	<u>101,947,835</u>	<u>23,862,895</u>	<u>20,936</u>	<u>7,829,864</u>	<u>397,572,800</u>
Asset-liability gap	(71,340,500)	37,079,148	40,153,110	22,067,252	7,539,629	35,498,639

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

- (i) The following tables indicate the assets and liabilities as at December 31 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)

Notes:

- (i) As at December 31, 2017, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB 6,354.27 million (2016: RMB 4,999.86 million).
- (ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.
- (ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group’s net profit or loss and equity. As at December 31, 2017, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group’s net profit to decrease RMB 409.65 million (2016: decrease RMB 719.39 million), and the Group’s equity to decrease RMB 320.41 million (2016: decrease RMB 363.88 million); a decrease in estimated interest rate of 100 basis points will cause the Group’s net profit to increase RMB 409.65 million (2016: increase RMB 719.39 million), and the Group’s equity to increase RMB 320.41 million (2016: increase RMB 363.88 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group’s assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group’s assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of each of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Foreign currency risk

The Group's currency risk mainly arises from foreign currency deposits with banks and other financial institutions. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The Group's currency exposures as at 31 December are as follows:

	2017				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	64,338,855	30,291	74	183	64,369,403
Deposits with banks and other financial institutions	4,115,562	2,807,205	1,993,530	7,454	8,923,751
Placement with banks and other financial institutions	1,200,000	163,355	—	—	1,363,355
Financial assets held under resale agreements	12,988,617	—	—	—	12,988,617
Loans and advances to customers	190,874,704	834,131	—	—	191,708,835
Investments	224,179,020	2,410,684	334,497	—	226,924,201
Others	15,681,638	29,769	257	—	15,711,664
Total assets	<u>513,378,396</u>	<u>6,275,435</u>	<u>2,328,358</u>	<u>7,637</u>	<u>521,989,826</u>
Liabilities					
Borrowing from the Central bank	1,322,887	—	—	—	1,322,887
Deposits from banks and other financial institutions	39,040,701	606,977	68	3,086	39,650,832
Placement from banks and other financial institutions	4,955,000	762,105	—	—	5,717,105
Financial assets sold under repurchase agreements	40,809,848	—	—	—	40,809,848
Deposits from customers	306,708,284	—	—	—	306,708,284
Debt securities issued	74,128,630	—	—	—	74,128,630
Others	7,341,525	8,907	208,006	3,191	7,561,629
Total liabilities	<u>474,306,875</u>	<u>1,377,989</u>	<u>208,074</u>	<u>6,277</u>	<u>475,899,215</u>
Asset-liability gap	<u>39,071,521</u>	<u>4,897,446</u>	<u>2,120,284</u>	<u>1,360</u>	<u>46,090,611</u>

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	2016				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	49,369,299	1,495	8	91	49,370,893
Deposits with banks and other financial institutions	12,637,652	191,257	81	1,502	12,830,492
Placement with banks and other financial institutions	8,700,000	—	—	—	8,700,000
Financial assets held under resale agreements	6,573,627	—	—	—	6,573,627
Loans and advances to customers	158,547,291	—	—	—	158,547,291
Investments	182,996,018	—	—	—	182,996,018
Others	14,052,892	226	—	—	14,053,118
Total assets	<u>432,876,779</u>	<u>192,978</u>	<u>89</u>	<u>1,593</u>	<u>433,071,439</u>
Liabilities					
Borrowing from the Central bank	4,517,048	—	—	—	4,517,048
Deposits from banks and other financial institutions	44,900,235	54,467	72	—	44,954,774
Placement from banks and other financial institutions	10,400,000	—	—	—	10,400,000
Financial assets sold under repurchase agreements	27,580,567	—	—	—	27,580,567
Deposits from customers	245,352,754	—	—	—	245,352,754
Debt securities issued	57,387,758	—	—	—	57,387,758
Others	7,247,723	130,552	17	1,607	7,379,899
Total liabilities	<u>397,386,085</u>	<u>185,019</u>	<u>89</u>	<u>1,607</u>	<u>397,572,800</u>
Asset-liability gap	<u>35,490,694</u>	<u>7,959</u>	<u>—</u>	<u>(14)</u>	<u>35,498,639</u>

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	2017 Increase/ (decrease)	2016 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	24,644	8
Down 100 bps change of foreign exchange rate	(24,644)	(8)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- All the position will be held and keep unchanged after mature; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Finance Management Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the bank. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment as at December 31:

	2017							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	41,734,259	22,635,144	—	—	—	—	—	64,369,403
Deposits with banks and other financial institutions	—	1,808,587	4,554,363	430,000	2,130,801	—	—	8,923,751
Placements with banks and other financial institutions	—	—	571,876	91,479	700,000	—	—	1,363,355
Financial assets held under resale agreements	—	—	12,988,617	—	—	—	—	12,988,617
Loans and advances to customers	5,736,700	846,942	13,636,103	15,789,820	80,299,636	25,368,632	50,031,002	191,708,835
Investments	1,046,953	—	13,777,295	39,754,747	56,117,599	80,419,222	35,808,385	226,924,201
Others	10,149,596	—	2,327,341	1,401,129	474,613	1,358,985	—	15,711,664
Total assets	58,667,508	25,290,673	47,855,595	57,467,175	139,722,649	107,146,839	85,839,387	521,989,826
Liabilities								
Borrowing from the central bank	—	—	266,321	422,603	633,963	—	—	1,322,887
Deposits from banks and other financial institutions	—	1,450,662	6,661,170	14,535,000	16,754,000	250,000	—	39,650,832
Placements from banks and other financial institutions	—	—	—	4,074,729	1,642,376	—	—	5,717,105
Financial assets sold under repurchase agreements	—	—	40,809,848	—	—	—	—	40,809,848
Deposits from customers	—	181,298,831	11,418,203	27,839,898	57,953,158	28,177,768	20,426	306,708,284
Debt securities issued	—	—	12,228,971	20,600,399	41,299,260	—	—	74,128,630
Others	—	703,943	880,550	1,837,638	3,022,198	1,099,219	18,081	7,561,629
Total liabilities	—	183,453,436	72,265,063	69,310,267	121,304,955	29,526,987	38,507	475,899,215
Long/(short) position	58,667,508	(158,162,763)	(24,409,468)	(11,843,092)	18,417,694	77,619,852	85,800,880	46,090,611

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

	2016							
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	32,683,692	16,687,201	—	—	—	—	—	49,370,893
Deposits with banks and other financial institutions	—	1,543,296	5,325,000	5,912,196	50,000	—	—	12,830,492
Placements with banks and other financial institutions	—	—	7,400,000	300,000	1,000,000	—	—	8,700,000
Financial assets held under resale agreements	—	—	6,573,627	—	—	—	—	6,573,627
Loans and advances to customers	3,717,131	1,284,235	9,613,451	20,256,555	87,753,075	15,317,051	20,605,793	158,547,291
Investments	1,343,490	348,250	18,400,117	33,407,145	55,051,732	53,104,955	21,340,329	182,996,018
Others	10,008,974	6,912	1,808,611	957,397	283,951	987,273	—	14,053,118
Total assets	47,753,287	19,869,894	49,120,806	60,833,293	144,138,758	69,409,279	41,946,122	433,071,439
Liabilities								
Borrowing from the central bank	—	45,860	2,315,273	272,915	1,883,000	—	—	4,517,048
Deposits from banks and other financial institutions	—	1,516,274	12,149,000	20,334,000	10,705,500	250,000	—	44,954,774
Placements from banks and other financial institutions	—	—	10,400,000	—	—	—	—	10,400,000
Financial assets sold under repurchase agreements	—	—	27,580,567	—	—	—	—	27,580,567
Deposits from customers	—	128,532,881	10,936,234	29,100,309	53,149,499	23,612,895	20,936	245,352,754
Debt securities issued	—	—	7,587,565	29,076,050	20,724,143	—	—	57,387,758
Others	—	865,164	—	2,300,276	3,343,670	725,280	145,509	7,379,899
Total liabilities	—	130,960,179	70,968,639	81,083,550	89,805,812	24,588,175	166,445	397,572,800
Long/(short) position	47,753,287	(111,090,285)	(21,847,833)	(20,250,257)	54,332,946	44,821,104	41,779,677	35,498,639

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments is listed in the category of indefinite.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments as at December 31:

	2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	1,322,887	1,335,242	—	267,813	425,194	642,235	—	—
Deposits from banks and other financial institutions	39,650,832	40,254,793	1,451,139	6,675,032	14,660,271	17,181,815	286,536	—
Placements from banks and other financial institutions	5,717,105	5,759,545	—	—	4,078,650	1,680,895	—	—
Financial assets sold under repurchase agreements	40,809,848	40,989,547	—	40,989,547	—	—	—	—
Deposits from customers	306,708,284	309,808,229	181,325,153	11,447,897	28,111,093	58,637,389	30,265,724	20,973
Debt securities issued	74,128,630	75,598,722	—	12,259,909	20,771,667	42,567,146	—	—
Other financial liabilities	2,965,736	2,965,736	128,062	258,064	648,731	1,200,666	729,947	266
Total non-derivative financial liabilities	471,303,322	476,711,814	182,904,354	71,898,262	68,695,606	121,910,146	31,282,207	21,239
Loan commitments	—	2,710,458	1,051,790	1,623,668	—	25,000	10,000	—

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

	2016							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	4,517,048	4,579,834	45,884	2,321,055	274,441	1,938,454	—	—
Deposits from banks and other financial institutions	44,954,774	45,376,762	1,517,131	12,164,950	20,475,723	10,919,322	299,636	—
Placements from banks and other financial institutions	10,400,000	10,410,975	—	10,410,975	—	—	—	—
Financial assets sold under repurchase agreements	27,580,567	27,613,356	—	27,613,356	—	—	—	—
Deposits from customers	245,352,754	247,956,133	128,697,706	10,938,836	29,170,388	53,767,091	25,358,678	23,434
Debt securities issued	57,387,758	58,212,889	—	7,607,789	29,713,422	20,891,678	—	—
Other financial liabilities	4,973,458	4,973,458	837,206	—	1,530,174	2,333,958	232,352	39,768
Total non-derivative financial liabilities	395,166,359	399,123,407	131,097,927	71,056,961	81,164,148	89,850,503	25,890,666	63,202
Loan commitments	—	1,688,575	777,790	730,785	—	170,000	10,000	—

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of each reporting period.

(ii) *Receivables and other non-derivative financial assets*

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) *Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of each reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates.

Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and financial assets at fair value through profit or loss are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 22. The carrying amounts of debt securities classified as receivables are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Fair value (Continued)

(b) Fair value measurement (Continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 35. The carrying amounts of other financial liabilities approximate their fair value.

(c) Fair value hierarchy

The following table presents the fair value of the Bank's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
– debt instruments	—	9,865,812	—	9,865,812
Available-for-sale financial assets				
– debt instruments	—	42,454,817	—	42,454,817
– investment management products	—	11,177,367	—	11,177,367
– wealth management products	—	31,471,850	—	31,471,850
– others	—	9,430,916	—	9,430,916
Total	—	104,400,762	—	104,400,762

	2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
– debt instruments	—	4,207,070	—	4,207,070
Available-for-sale financial assets				
– debt instruments	—	51,781,223	—	51,781,223
– investment management products	—	9,389,752	—	9,389,752
– wealth management products	—	34,287,700	—	34,287,700
– others	—	6,776,238	—	6,776,238
Total	—	106,441,983	—	106,441,983

During the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statement of financial position. Surplus funding is accounted for as deposits from customers.

	2017	2016
Entrusted loans	37,950,480	21,898,680
Entrusted funds	37,950,480	21,898,680

47 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	2017	2016
Loan commitments		
– Original contractual maturity within one year	2,700,458	1,678,575
– Original contractual maturity more than one year (inclusive)	10,000	10,000
Sub-total	2,710,458	1,688,575
Acceptances	30,413,732	33,238,846
Letters of credit	4,448,412	1,205,172
Letters of guarantees	984,224	735,478
Total	38,556,826	36,868,071

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Commitments and contingent liabilities (Continued)

(b) Credit risk-weighted amount

	2017	2016
Credit risk-weighted amount	22,340,500	15,175,182

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the CBRC.

(c) Operating lease commitments

As at December 31, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	2017	2016
Within one year (inclusive)	245,302	110,550
After one year but within five years (inclusive)	715,612	405,209
After five years	301,332	159,956
Total	1,262,246	675,715

(d) Capital commitments

As at December 31, the Group's authorized capital commitments are as follows:

	2017	2016
Contracted but not paid for	249,389	253,553
Approved but not contracted for	177,839	272,396
Total	427,228	525,949

As at December 31, the authorized capital commitments are as follows:

	2017	2016
Contracted but not paid for	249,389	253,310
Approved but not contracted for	177,839	272,396
Total	427,228	525,706

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Commitments and contingent liabilities (Continued)

(e) Outstanding litigations and disputes

As at December 31, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB 766.00 million (2016: RMB 599.52 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

48 Company-level statement of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

	2017	2016
Assets		
Cash and deposits with the central bank	63,502,414	48,752,811
Deposits with banks and other financial institutions	7,864,074	11,960,632
Placements with banks and other financial institutions	1,363,355	8,700,000
Financial assets at fair value through profit or loss	9,865,812	4,207,070
Financial assets held under resale agreements	12,988,617	6,573,627
Loans and advances to customers	182,748,192	153,990,819
Available-for-sale financial assets	94,530,342	102,258,809
Held-to-maturity investments	23,735,307	17,851,813
Debt securities classified as receivables	99,660,276	58,678,326
Investments in subsidiaries	796,702	788,738
Property and equipment	4,517,499	4,704,633
Deferred tax assets	1,993,905	1,497,369
Goodwill	468,397	468,397
Other assets	8,393,865	7,122,378
Total assets	512,428,757	427,555,422

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Company-level statement of financial position (Continued)

	2017	2016
Liabilities and equity		
Liabilities		
Borrowing from central bank	887,887	4,071,188
Deposits from banks and other financial institutions	40,529,790	46,016,896
Placements from banks and other financial institutions	4,182,105	10,400,000
Financial assets sold under repurchase agreements	40,809,848	27,580,567
Deposits from customers	299,295,508	240,138,490
Income tax payable	969,818	737,654
Debt securities issued	74,128,630	57,387,758
Other liabilities	6,412,962	6,531,320
Total liabilities	<u>467,216,548</u>	<u>392,863,873</u>
Equity		
Share capital	20,075,000	16,625,000
Capital reserve	13,535,880	10,275,243
Surplus reserve	1,258,065	877,063
General reserve	6,320,746	5,080,799
Retained earnings	4,022,518	1,833,444
Total equity	<u>45,212,209</u>	<u>34,691,549</u>
Total liabilities and equity	<u>512,428,757</u>	<u>427,555,422</u>

49 Subsequent events

The Group had no material events for disclosure subsequent to December 31, 2017 and up to the date of this Financial Statements.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting period beginning on or after
IFRS 9, <i>Financial instruments</i>	January 1, 2018
IFRS 15, <i>Revenue from contracts with customers</i>	January 1, 2018
Amendments to IFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	January 1, 2018
Amendments to IAS 40, <i>Transfers of investment property</i>	January 1, 2018
IFRIC 22, <i>Foreign currency transactions and advance consideration</i>	January 1, 2018
IFRS 16, <i>Leases</i>	January 1, 2019
IFRIC 23, <i>Uncertainty over income tax treatments</i>	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's result of operations and financial position, except for the following:

IFRS 9 Financial Instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial asset. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at January 1, 2018.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017 (Continued)

IFRS 9 Financial Instruments (Continued)

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) *Classification and measurement*

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The standard will affect the classification and measurement of financial assets held as at January 1, 2018 as follows:

- Discounted bills and forfeiting in Loans and advances to customers under IAS 39 will be measured at FVOCI under IFRS 9.
- Tier-two capital bonds in Held-to-maturity investment securities under IAS 39 will be measured at FVTPL under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- The equity investment securities that are classified as available-for-sale under IAS 39 will be designated at FVOCI under IFRS 9.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017 (Continued)

IFRS 9 Financial Instruments (Continued)

(a) Classification and measurement (Continued)

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

Based on a preliminary assessment, if the Group were to adopt IFRS 9 at December 31, 2017, the net assets would decrease by approximately 3 percent as a result of the new requirements on classification and measurement, and impairment as compared with that recognised under IAS 39.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The Group assesses that adopting IFRS 15 would not have a material impact to the Group's financial information.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017 (Continued)

IFRS 16 Leases

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value, in the statement of financial position.

Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at December 31, 2017, the Group had non-cancellable operating lease commitments of RMB 1,209 million, see Note 47 (c). However, the Group is in the process of assessing to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The directors of the Bank do not expect the adoption of IFRS 16 as compared with the current accounting policy will result in significant impact on the Group's results but it is expected that certain portion of these commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial information.

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

1 Liquidity coverage ratio and leverage ratio

	2017	Average for 2017
Liquidity coverage ratio (RMB and foreign currency)	<u>217.68%</u>	<u>210.77%</u>

	2016	Average for 2016
Liquidity coverage ratio (RMB and foreign currency)	<u>201.24%</u>	<u>200.99%</u>

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

Leverage ratio

	2017	2016
Leverage ratio	<u>8.06%</u>	<u>9.36%</u>

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Currency concentrations

	2017			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	6,275,435	2,328,358	7,637	8,611,430
Spot liabilities	(1,377,989)	(208,074)	(6,277)	(1,592,340)
Net position	<u>4,897,446</u>	<u>2,120,284</u>	<u>1,360</u>	<u>7,019,090</u>

	2016			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	192,978	89	1,593	194,660
Spot liabilities	(185,019)	(89)	(1,607)	(186,715)
Net position	<u>7,959</u>	<u>—</u>	<u>(14)</u>	<u>7,945</u>

The Group has no structural position at the end of reporting periods.

3 International claims

The Bank is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include amounts due from banks and other financial institutions and investments.

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 International claims (Continued)

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	2017			
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	Total
Asia Pacific	3,709,490	—	661,425	4,370,915
North America	76,493	—	—	76,493
Others	6,253	—	—	6,253
	<u>3,792,236</u>	<u>—</u>	<u>661,425</u>	<u>4,453,661</u>

	2016			
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	Total
All regions outside Mainland China	56,470	—	—	56,470
	<u>56,470</u>	<u>—</u>	<u>—</u>	<u>56,470</u>

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Gross amount of overdue loans and advances

	2017	2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	1,667,179	399,073
– between 6 months and 1 year (inclusive)	2,551,153	1,305,838
– over 1 year	3,838,799	2,402,763
Total	8,057,131	4,107,674
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.84%	0.24%
– between 6 months and 1 year (inclusive)	1.28%	0.79%
– over 1 year	1.93%	1.45%
Total	4.05%	2.48%

Definition of Terms

“Articles of Association”	The articles of association of the Bank as may be amended, supplemented or otherwise modified from time to time
“Bank”, “Our Bank”, “we”, “us”, or “Zhongyuan Bank”	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司), a joint stock company established on December 23, 2014 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBRC”	China Banking Regulatory Commission
“CBRC Henan Office”	China Banking Regulatory Commission Henan Office
“China” or “PRC”	the People’s Republic of China, but for the purpose of this interim report only and, unless the context otherwise requires, excluding Hong Kong, Macau and Taiwan
“Consumer Finance Company”	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), a joint stock company established in the PRC on December 29, 2016 and a subsidiary of our Bank
“Corporate Governance Code”	the Code on Corporate Governance and the Report on Corporate Governance under Appendix 14 to the Hong Kong Listing Rules
“Directors”	directors of the Bank
“Domestic Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for or credited as paid up in Renminbi
“H Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
“HK\$”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

Definition of Terms

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	July 19, 2017, the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange
“Lushi Defeng County Bank”	Lushi Defeng County Bank Co., Ltd. (盧氏德豐村鎮銀行股份有限公司), a joint stock company established in the PRC on May 15, 2012 and a subsidiary of our Bank
“Main Board”	the stock market operated by the Hong Kong Stock Exchange (excluding the option market), independent of and to be operated in parallel with the GEM Board of the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“Nine County Banks”	the nine county banks located in Henan Province, the PRC, which are subsidiaries of the Bank, namely, Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), Linzhou Defeng County Bank Co., Ltd., (林州德豐村鎮銀行股份有限公司), Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), Suiping Hengsheng County Bank Co., Ltd. (遂平恒生村鎮銀行股份有限公司), Lushi Defeng County Bank Co., Ltd. (盧氏德豐村鎮銀行股份有限公司), Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司) and Henan Xinxiang Xinxing County Bank Co., Ltd. (河南新鄉新興村鎮銀行股份有限公司)
“PBoC” or “Central Bank”	The People’s Bank of China (中國人民銀行), the central bank of the PRC
“Prospectus”	the prospectus of the Bank dated June 30, 2017 in connection with the public offering in Hong Kong
“Reporting Period”	the 12 months ended December 31, 2017
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as may be amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	shares in the share capital of RMB1.00 each of the Bank, including Domestic Shares and H Shares
“Supervisors”	the supervisors of the Bank