



0212017030000159117

报告文号：普华永道中天审字[2017]第22830号

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**FINANCIAL STATEMENTS AND AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**FINANCIAL STATEMENTS AND AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

<b>Contents</b>	<b>Page</b>
Auditor's Report	1 - 2
Financial statements for the year ended 31 December 2016	
Consolidated and company balance sheets	3 - 4
Consolidated and company income statements	5 - 6
Consolidated and company cash flow statements	7 - 8
Consolidated statement of changes in shareholders' equity	9 - 10
Company statement of changes in shareholders' equity	11 - 12
Notes to the financial statements	13 - 91



## AUDITOR'S REPORT

PwC ZT Shen Zi (2017) No. 22830

(Page 1 of 2)

To the Board of Directors of Jiangsu Hai'an Rural Commercial Bank Co., Ltd.

We have audited the accompanying financial statements of Jiangsu Hai'an Rural Commercial Bank Co., Ltd. ("the Company"), which comprise the consolidated and company's balance sheets as at 31 December 2016, the consolidated and company's income statements, the consolidated and company's cash flow statements and the consolidated and company's statements of changes in shareholders' equity for the year then ended, and the notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial positions of the Company as at 31 December 2016, and the consolidated and company's financial performances and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.



PricewaterhouseCoopers Zhong  
Tian LLP

Shanghai,  
the People's Republic of China  
10 March 2017

Certified Public  
Accountant

Certified Public  
Accountant

张武



张武  
黄晨



**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.****CONSOLIDATED AND COMPANY BALANCE SHEETS  
AS AT 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

		Group	Bank	
	Note	31 December 2015	31 December 2016	31 December 2015
<b>Assets</b>				
Cash and balances with the central bank	III 1	5,853,300,495	6,230,965,648	5,831,577,314
Due from banks and other financial institutions	III 2	6,261,872,305	4,514,852,775	6,232,918,070
Derivative financial assets		37,800	-	37,800
Financial assets purchased under resale agreements	III 3	-	152,000,000	-
Interest receivable	III 4	266,032,793	391,124,540	264,884,988
Loans and advances to customers	III 5	24,354,792,413	26,081,197,617	24,081,163,521
Available-for-sale financial assets	III 6	7,462,221,760	22,284,802,127	7,462,221,760
Investment securities held-to-maturity	III 7	6,068,696,522	-	6,068,696,522
Long-term equity investments	III 8	8,496,546	8,506,491	59,496,546
Fixed assets	III 9	254,678,236	252,322,615	226,076,520
Construction in progress	III 10	50,633,232	13,784,847	33,451,928
Intangible assets	III 11	98,098,862	100,358,135	98,098,862
Long-term deferred expenses		11,334,299	10,204,105	10,959,068
Deferred tax assets	III 12	120,853,926	170,036,716	120,853,926
Other assets	III 13	5,528,709	15,539,436	5,447,058
<b>Total assets</b>		<b>50,816,577,898</b>	<b>60,225,695,052</b>	<b>50,495,883,883</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**CONSOLIDATED AND COMPANY BALANCE SHEETS  
AS AT 31 DECEMBER 2016(Continued)**

(All amounts expressed in RMB unless otherwise stated)

	Note	Group	Bank	
		31 December 2015	31 December 2016	31 December 2015
<b>Liabilities</b>				
Borrowing from the central bank		450,000,000	50,000,000	450,000,000
Due to banks and other financial institutions	III 14	1,334,138,950	1,794,356,158	1,347,163,307
Placements from banks and other financial institutions	III 15	432,468,000	500,000,000	432,468,000
Financial assets sold under repurchase agreements	III 16	4,992,359,572	8,467,765,204	4,992,359,572
Deposits from customers	III 17	37,723,062,012	42,744,766,485	37,451,525,447
Employee benefits payable	III 18	100,971,953	98,220,747	97,409,163
Taxes payable	III 19	55,880,389	61,490,880	53,893,254
Interest payable	III 20	1,461,735,157	1,654,812,097	1,461,255,679
Bonds issued	III 21	211,900,000	-	211,900,000
Other liabilities	III 22	87,007,921	61,452,111	85,801,330
<b>Total liabilities</b>		<b>46,849,523,954</b>	<b>55,432,863,682</b>	<b>46,583,775,752</b>
<b>Equity</b>				
Paid-in capital	III 23	850,000,000	1,000,000,000	850,000,000
Capital surplus	III 24	606,000,000	1,056,000,000	606,000,000
Other comprehensive income	III 25	66,753,183	(38,600,192)	66,753,183
Surplus reserve	III 26	713,677,446	1,020,202,912	713,677,446
General risk reserve	III 27	1,035,290,530	1,139,470,326	1,035,290,530
Retained earnings	III 28	643,419,338	615,758,324	640,386,972
Equity attributable to the parent company's shareholders		3,915,140,497		
Minority interest	III 29	51,913,447		
<b>Total equity</b>		<b>3,967,053,944</b>	<b>4,792,831,370</b>	<b>3,912,108,131</b>
<b>Total liabilities and equity</b>		<b>50,816,577,898</b>	<b>60,225,695,052</b>	<b>50,495,883,883</b>
<b>Net asset value per share</b>		<b>4.61</b>	<b>4.79</b>	<b>4.60</b>

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

The financial statements were signed on its behalf by:

Chairman of Board:      Governor:      Director in charge of accounting:      Head of accounting department:

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**
**CONSOLIDATED AND COMPANY INCOME STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

	Note	Group		Bank	
		2016	2015	2016	2015
Interest income		1,922,932,810	2,164,100,245	1,904,598,522	2,136,280,097
Interest expenses		(1,368,821,390)	(1,389,919,952)	(1,367,937,289)	(1,387,594,103)
Net interest income	III 30	554,111,420	774,180,293	536,661,233	748,685,994
Fee and commission income		17,467,224	16,317,474	17,363,870	16,286,149
Fee and commission expense		(8,021,801)	(5,732,501)	(7,982,809)	(5,729,325)
Net fee and commission income	III 31	9,445,423	10,584,973	9,381,061	10,556,824
Investment income	III 32	782,480,763	483,387,354	785,786,630	483,387,354
<i>Including: Investment income from associates</i>		9,945	164,242	9,945	164,242
Income from fair value changes		(37,800)	37,800	(37,800)	37,800
Foreign exchange gain or loss		7,395,275	3,304,450	7,395,275	3,304,450
Other operating income		1,265,097	388,490	1,407,343	644,470
<b>Operating income</b>		<b>1,354,660,178</b>	<b>1,271,883,360</b>	<b>1,340,593,742</b>	<b>1,246,616,892</b>
Tax and surcharges	III 33	(29,332,426)	(57,918,922)	(28,794,288)	(56,941,631)
General and administrative expenses	III 34	(427,006,395)	(393,769,380)	(414,535,397)	(379,570,380)
Impairment losses on assets	III 35	(241,318,437)	(136,665,242)	(233,361,045)	(132,196,537)
Other operating expenses		(19,833)	(2,175,990)	(19,833)	(2,175,990)
<b>Operating expense</b>		<b>(697,677,091)</b>	<b>(590,529,534)</b>	<b>(676,710,563)</b>	<b>(570,884,538)</b>
<b>Operating profit</b>		<b>656,983,087</b>	<b>681,353,826</b>	<b>663,883,179</b>	<b>675,732,354</b>
Add: non-operating income		5,408,023	5,938,278	967,924	2,117,778
Less: non-operating expenses		(5,366,252)	(8,655,770)	(5,366,252)	(8,655,770)
<b>Profit before income tax</b>		<b>657,024,858</b>	<b>678,636,334</b>	<b>659,484,851</b>	<b>669,194,362</b>
Less: Income tax expenses	III 36	(173,082,133)	(158,343,725)	(172,772,537)	(155,116,883)
<b>Net profit</b>		<b>483,942,725</b>	<b>520,292,609</b>	<b>486,712,314</b>	<b>514,077,479</b>
Net profit attributable to the parent company's shareholders		483,679,948	517,247,196		
Minority interest		262,777	3,045,413		

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.****CONSOLIDATED AND COMPANY INCOME STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016(Continued)**

(All amounts expressed in RMB unless otherwise stated)

	Note	Group		Bank	
		2016	2015	2016	2015
Earnings per share	III 37				
Basic and diluted earnings per share (expressed in RMB per share)		0.56	0.61	0.56	0.60
<b>Other comprehensive income after tax</b>	III 25	(105,353,375)	36,795,514	(105,353,375)	36,795,514
Other comprehensive income attributable to shareholders of the parent company, after tax					
Items that may be subsequently reclassified to profit or loss					
comprehensive income					
-Fair value changes from available-for-sale financial assets		(105,353,375)	36,795,514	(105,353,375)	36,795,514
<b>Total comprehensive income</b>		<b>378,589,350</b>	<b>557,088,123</b>	<b>381,358,939</b>	<b>550,872,993</b>
Total comprehensive income attributable to parent company's shareholders		378,326,573	554,042,710		
Total comprehensive income attributable to minority interest		262,777	3,045,413		

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

The financial statements were signed on its behalf by:

Chairman of Board:      Governor:      Director in charge of accounting:      Head of accounting department:

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

	Note	Group		Bank	
		2016	2015	2016	2015
<b>1. Cash flows from operating activities</b>					
Net increase in deposits from customers		9,204,284,370	6,656,334,274	9,283,371,521	6,665,254,066
Net decrease in balances with the central bank and interbank balances		-	4,091,777,256	-	4,069,159,247
Net increase in borrowing from the central bank		-	300,000,000	-	300,000,000
Interest received		1,957,370,968	2,189,024,241	1,889,868,336	2,161,539,553
Cash received from fee and commission income		17,467,224	16,317,474	17,363,870	16,286,149
Cash received from other operating activities		8,752,701	7,130,734	4,454,847	3,566,214
Subtotal of cash inflows		<u>11,187,875,263</u>	<u>13,260,583,979</u>	<u>11,195,058,574</u>	<u>13,215,805,229</u>
Net increase in balances with the central bank and interbank balances		(1,007,241,577)	-	(1,025,435,676)	-
Net decrease in borrowing from the central bank		(400,000,000)	-	(400,000,000)	-
Net increase in loans and advances to customers		(2,235,449,274)	(2,175,998,452)	(2,233,395,141)	(2,161,321,824)
Interest paid		(1,149,457,459)	(1,059,689,890)	(1,148,670,241)	(1,057,183,710)
Cash paid for fee and commission expense		(8,021,801)	(5,732,501)	(7,982,809)	(5,729,325)
Cash paid to and on behalf of employees		(264,377,852)	(270,213,040)	(255,824,681)	(263,572,257)
Cash paid for taxes		(210,807,989)	(316,600,718)	(208,034,196)	(314,163,481)
Cash paid for other operating activities		(171,678,145)	(80,096,452)	(166,718,109)	(78,578,861)
Subtotal of cash outflows		<u>(5,447,034,097)</u>	<u>(3,908,331,053)</u>	<u>(5,446,060,853)</u>	<u>(3,880,549,458)</u>
<b>Net cash flows from operating activities</b>	III 39	<u>5,740,841,166</u>	<u>9,352,252,926</u>	<u>5,748,997,721</u>	<u>9,335,255,771</u>
<b>2. Cash flows from investing activities</b>					
Cash received from disposal of fixed assets, intangible assets and other long-term assets		(172,221)	154,209	46,029	154,209
Cash received from repayment of bonds and other financial asset investments		78,432,820,106	114,813,668,234	78,364,181,426	114,813,668,234
Cash received from investment income		481,618,386	433,286,505	533,806,097	433,286,505
Cash received from disposal of subsidiary		-	-	51,000,000	-
Subtotal of cash inflows		<u>78,914,266,271</u>	<u>115,247,108,948</u>	<u>78,949,033,552</u>	<u>115,247,108,948</u>
Cash paid to purchase bonds and other financial asset investments		(87,118,075,216)	(121,692,460,888)	(87,118,075,216)	(121,692,460,888)
Cash paid to purchase fixed assets, intangible assets and other long-term assets		(28,345,880)	(140,357,079)	(39,112,197)	(121,974,355)
Subtotal of cash outflows		<u>(87,146,421,096)</u>	<u>(121,832,817,967)</u>	<u>(87,157,187,413)</u>	<u>(121,814,435,243)</u>
<b>Net cash flows used in investing activities</b>		<u>(8,232,154,825)</u>	<u>(6,585,709,019)</u>	<u>(8,208,153,861)</u>	<u>(6,567,326,295)</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016(Continued)**

(All amounts expressed in RMB unless otherwise stated)

	Note	Group		Bank	
		2016	2015	2016	2015
<b>3. Cash flows from financing activities</b>					
Capital contributions from shareholders		600,000,000	-	600,000,000	-
Proceeds from issuance of bonds		-	211,900,000	-	211,900,000
Subtotal of cash inflows		<u>600,000,000</u>	<u>211,900,000</u>	<u>600,000,000</u>	<u>211,900,000</u>
Repayment of bond issued		(211,900,000)	(198,329,471)	(211,900,000)	(198,329,471)
Cash paid for dividend and interest of bonds issued		(128,036,428)	(141,343,837)	(127,710,630)	(141,018,039)
Subtotal of cash outflows		<u>(339,936,428)</u>	<u>(339,673,308)</u>	<u>(339,610,630)</u>	<u>(339,347,510)</u>
<b>Net cash flows from/(used in) financing activities</b>		<u>260,063,572</u>	<u>(127,773,308)</u>	<u>260,389,370</u>	<u>(127,447,510)</u>
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>		<u>6,654,133</u>	<u>2,831,021</u>	<u>6,654,133</u>	<u>2,831,021</u>
<b>5. Net increase/(decrease) in cash and cash equivalents</b>		(2,224,595,954)	2,641,601,620	(2,192,112,637)	2,643,312,987
Add: Cash and cash equivalents at the beginning of the year	III 39	<u>6,332,695,135</u>	<u>3,691,093,515</u>	<u>6,300,211,818</u>	<u>3,656,898,831</u>
<b>6. Cash and cash equivalents at the end of the year</b>	III 39	<u>4,108,099,181</u>	<u>6,332,695,135</u>	<u>4,108,099,181</u>	<u>6,300,211,818</u>

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

The financial statements were signed on its behalf by:

Chairman of Board:      Governor:      Director in charge of accounting:      Head of accounting department:

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

		Equity attributable to the parent company's shareholders							Minority interest	Total shareholders' equity
		Paid-in capital III 23	Capital surplus III 24	Other comprehensive income III 25	Surplus reserve III 26	General risk reserve III 27	Retained earning III 28	Sub-total		
<b>1.</b>	<b>Balance at 1 January 2016</b>	850,000,000	606,000,000	66,753,183	713,677,446	1,035,290,530	643,419,338	3,915,140,497	51,913,447	3,967,053,944
<b>2.</b>	<b>Movement of current year</b>									
(1)	Total comprehensive income									
	Net profit	-	-	-	-	-	483,679,948	483,679,948	262,777	483,942,725
	Other comprehensive income	-	-	(105,353,375)	-	-	-	(105,353,375)	-	(105,353,375)
	Total comprehensive income	-	-	(105,353,375)	-	-	483,679,948	378,326,573	262,777	378,589,350
(2)	Subsidiary disposal	-	-	-	-	-	-	-	(52,176,224)	(52,176,224)
(3)	Capital contribution from shareholders	150,000,000	450,000,000	-	-	-	-	600,000,000	-	600,000,000
(4)	Profit appropriation									
	Appropriation to surplus reserves	-	-	-	306,525,466	-	(306,525,466)	-	-	-
	Appropriations to general risk reserve	-	-	-	-	102,815,496	(102,815,496)	-	-	-
	Cash dividends	-	-	-	-	-	(102,000,000)	(102,000,000)	-	(102,000,000)
(5)	Government subsidies recognized in general risk reserve	-	-	-	-	1,364,300	-	1,364,300	-	1,364,300
	<b>Total movement of current year</b>	150,000,000	450,000,000	(105,353,375)	306,525,466	104,179,796	(27,661,014)	877,690,873	(51,913,447)	825,777,426
<b>3.</b>	<b>Balance at 31 December 2016</b>	1,000,000,000	1,056,000,000	(38,600,192)	1,020,202,912	1,139,470,326	615,758,324	4,792,831,370	-	4,792,831,370

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2016(Continued)**

(All amounts expressed in RMB unless otherwise stated)

		Equity attributable to the parent company's shareholders								Total
		Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserve	General risk reserve	Retained earning	Sub-total	Minority interest	shareholders' equity
		III 23	III 24	III 25	III 26	III 27	III 28			
<b>1.</b>	<b>Balance at 1 January 2015</b>	850,000,000	606,000,000	29,957,669	332,238,033	1,032,650,530	635,111,555	3,485,957,787	48,868,034	3,534,825,821
<b>2.</b>	<b>Movement of current year</b>									
(1)	Total comprehensive income									
	Net profit	-	-	-	-	-	517,247,196	517,247,196	3,045,413	520,292,609
	Other comprehensive income	-	-	36,795,514	-	-	-	36,795,514	-	36,795,514
	Total comprehensive income	-	-	36,795,514	-	-	517,247,196	554,042,710	3,045,413	557,088,123
(2)	Profit appropriation									
	Appropriation to surplus reserves	-	-	-	381,439,413	-	(381,439,413)	-	-	-
	Cash dividends	-	-	-	-	-	(127,500,000)	(127,500,000)	-	(127,500,000)
(3)	Government subsidies recognized in general risk reserve	-	-	-	-	2,640,000	-	2,640,000	-	2,640,000
	<b>Total movement of current year</b>	-	-	36,795,514	381,439,413	2,640,000	8,307,783	429,182,710	3,045,413	432,228,123
<b>3.</b>	<b>Balance at 31 December 2015</b>	850,000,000	606,000,000	66,753,183	713,677,446	1,035,290,530	643,419,338	3,915,140,497	51,913,447	3,967,053,944

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

	Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserve	General risk reserve	Retained earning	Total shareholders' equity
	III 23	III 24	III 25	III 26	III 27	III 28	
<b>1. Balance at 1 January 2016</b>	850,000,000	606,000,000	66,753,183	713,677,446	1,035,290,530	640,386,972	3,912,108,131
<b>2. Movement of current year</b>							
(1) Total comprehensive income							
Net profit	-	-	-	-	-	486,712,314	486,712,314
Other comprehensive income	-	-	(105,353,375)	-	-	-	(105,353,375)
Total comprehensive income	-	-	(105,353,375)	-	-	486,712,314	381,358,939
(2) Capital contribution from shareholders	150,000,000	450,000,000	-	-	-	-	600,000,000
(3) Profit appropriation							
Appropriation to surplus reserves	-	-	-	306,525,466	-	(306,525,466)	-
Appropriations to general risk reserve	-	-	-	-	102,815,496	(102,815,496)	-
Cash dividends	-	-	-	-	-	(102,000,000)	(102,000,000)
(4) Government subsidies recognized in general risk reserve	-	-	-	-	1,364,300	-	1,364,300
<b>Total movement of current year</b>	<b>150,000,000</b>	<b>450,000,000</b>	<b>(105,353,375)</b>	<b>306,525,466</b>	<b>104,179,796</b>	<b>(24,628,648)</b>	<b>880,723,239</b>
<b>3. Balance at 31 December 2015</b>	<b>1,000,000,000</b>	<b>1,056,000,000</b>	<b>(38,600,192)</b>	<b>1,020,202,912</b>	<b>1,139,470,326</b>	<b>615,758,324</b>	<b>4,792,831,370</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2016(Continued)**

(All amounts expressed in RMB unless otherwise stated)

	Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserve	General risk reserve	Retained earning	Total shareholders' equity
	III 23	III 24	III 25	III 26	III 27	III 28	
<b>1. Balance at 1 January 2015</b>	850,000,000	606,000,000	29,957,669	332,238,033	1,032,650,530	635,248,906	3,486,095,138
<b>2. Movement of current year</b>							
(1) Total comprehensive income							
Net profit	-	-	-	-	-	514,077,479	514,077,479
Other comprehensive income	-	-	36,795,514	-	-	-	36,795,514
Total comprehensive income	-	-	36,795,514	-	-	514,077,479	550,872,993
(2) Profit appropriation							
Appropriation to surplus reserves	-	-	-	381,439,413	-	(381,439,413)	-
Cash dividends	-	-	-	-	-	(127,500,000)	(127,500,000)
(3) Government subsidies recognized in general risk reserve	-	-	-	-	2,640,000	-	2,640,000
<b>Total movement of current year</b>	-	-	36,795,514	381,439,413	2,640,000	5,138,066	426,012,993
<b>3. Balance at 31 December 2015</b>	850,000,000	606,000,000	66,753,183	713,677,446	1,035,290,530	640,386,972	3,912,108,131

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

The financial statements were signed on its behalf by:

Chairman of Board:

Governor:

Director in charge of accounting:

Head of accounting department:

# JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts expressed in RMB unless otherwise stated)

### I. GENERAL INFORMATION

Jiangsu Hai'an Rural Commercial Bank Co., Ltd. ("the Company", "the Bank") is a commercial bank incorporated in Jiangsu Hai'an, the People's Republic of China ("the PRC") on 30 January 2011 in accordance with the approval from China Banking Regulatory Commission ("CBRC") (Su Yin Jian Fu [2011] No.37), and its financial service certificate is No.00417636. The Company obtained its business licence with the Number of 320600000261805 from Jiangsu Nantong Municipal Administration of Industry and Commerce. The registration address of the Company is No.88, Central Changjiang Road, Hai'an County, Jiangsu Province.

On 31 December 2016, the registered capital of the Company amounted to RMB 1,000,000,000.

The Company and its subsidiaries (collectively referred to as "the Group") are mainly engaged in financial service businesses. The scope of business mainly includes absorbing deposits from public; granting of short; medium and long-term loans; domestic settlement; bill acceptance and discounting; agency of distribution; cashing and underwriting government bonds; trading government bonds, financial bonds; interbank lending; bank card business; payments business agency; providing safe deposit box services; foreign currency deposits; foreign currency loans; remittance; currency exchange; international settlements; credit investigation, consulting services; other businesses approved by CBRC, and insurance business agency (subject to approved scope and duration of insurance agency business license). The Company's principal regulator is CBRC.

The Company consolidated Guiyang Xiaohe Technology Rural Bank Limited as its subsidiary in 2015 and disposed all shares of it on 10 December 2016, therefore, there was only the Company's balance sheet as at 31 December 2016.

The financial statements were authorized to issue by the Company's Board of Directors on 3 March 2017.

### II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The companies in the Group were all financial institutions and significant accounting policies mainly included recognition, classification, measurement and impairment of financial assets. (Note II 8)

See the Group's key judgments for significant accounting policies in Note II 26.

#### 1. Basis of Presentation

The financial statements were prepared in accordance with the *Basic Standard of the Accounting Standards for Business Enterprise*, specific standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and thereafter (hereafter referred to as "the Accounting Standards for Business Enterprises" or "CAS")

The financial statements are prepared on a going concern basis.

#### 2. Statement of Compliance With CAS

The financial statements of the Company for the year ended 31 December 2016 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the Company's financial positions as at 31 December 2016 and consolidated and the Company's financial performance, cash flows and other information for the year then ended.

#### 3. Accounting year

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

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**4. Functional currency**

The functional currency is Renminbi (RMB).

**5. Consolidated financial statements**

The scope of consolidation is determined on the basis of control. The consolidated financial statements include the financial statements of the Company and all its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual or relative arrangements.

The Group determines whether it is an agent or a principle in relation to those structured entities in which the Group acts as an asset manager. If an asset manager is an agent, it acts primarily on behalf of others (other investors in the structured entity) and so do not control the structured entity. Otherwise, it may be a principle if it acts primarily for itself, and therefore controls the structured entity.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date. All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity, net profits and losses and total comprehensive incomes for the period not attributable to Company are recognized as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealized profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the parent and minority interests in accordance with the allocation proportion of the parent company in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the parent company and minority interests in accordance with the allocation proportion of the parent company in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the parent company and minority interests in accordance with the allocation proportion of the parent company in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

If the subsidiaries' loss of current period attributed to the minority shareholders exceed the minority interest brought down, the amount will be deducted from the minority interest.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**6. Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of security. Translation differences related to changes in amortised cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

Non-monetary assets and liabilities that are measured at fair value are translated using the exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available-for-sale are recognized in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in the profit or loss.

**7. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, including cash, excess reserves with the central bank, due from and placements with other banks and financial institutions within original maturities no more than three months.

**8. Financial instrument**

Recognition and derecognition

The Group recognizes a financial asset or a financial liability at the time the Group becomes a party to the contractual obligation of financial instruments. Regular way transactions of financial assets are recognized and derecognized, using trade date accounting. A regular way of purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date is the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognized when: (1) the contractual rights to receive cash flows from the financial asset have expired; or (2) the Group has transferred substantially all risks and rewards of ownership; or (3) the financial asset has been transferred and the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but it has not retained control of the asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

On derecognition of a financial asset, the difference between the carrying amount and the considerations received together with the accumulated change of fair value recorded in other comprehensive income is recognized in profit or loss.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**8. Financial instrument (Continued)**

Recognition and derecognition (Continued)

When the present obligations of financial liabilities have been wholly or partially terminated, the financial liabilities or the terminated parts are derecognized. Difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

If the existing financial liability is replaced by the same creditor with another financial liability that is with substantially different terms, or if the terms of the existing liability are substantially revised, such replacement or revision is accounted for as derecognition of the original liability and recognition of a new liability, and the difference is recognized in profit or loss. If the obligation relating to a financial liability has been partially or fully discharged, the financial liability is derecognized partially or in full.

Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of the financial assets on initial recognition. Financial assets are recognized at fair value on initial recognition. For financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit or loss. Transaction costs relating to financial assets in other categories are included in the initial recognized amount. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset held for trading is the financial asset that satisfies one of the following conditions: 1) the financial asset is acquired for the purpose of selling in the near term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) It is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Financial assets are designated at fair value through profit or loss upon initial recognition when: 1) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; 2) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; or 3) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

These financial assets are subsequently measured at fair value. Changes of fair value are recognized in profit or loss. Interest accrued during the assets holding period, dividend received and gains or loss arising from disposal are recognized in profit and loss.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**8. Financial instrument (Continued)**

Classification and measurement of financial assets (Continued)

*Held-to-maturity investments*

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intention and the ability to hold to maturity.

Subsequently, such financial assets are measured at amortized cost using effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Group fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Group shall reclassify all held-to-maturity investments into available-for-sale category measured at fair value. The Group is further prohibited to reclassify these financial assets as held-to-maturity during the current financial year or the two preceding financial years.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequently, such financial assets are measured at amortized cost using effective interest method.

*Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value. A gain or loss arising from changes in fair value of an available-for-sale financial asset is recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets related to amortized costs, until the financial asset is derecognized or is determined to be impaired. At this time, the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss.

Interest accrued during the available-for-sale financial assets holding period calculated by effective interest method and dividend received are respectively recognized as profit or loss.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**8. Financial instrument (Continued)**

Classification and measurement of financial liabilities

Financial liabilities of the Group are, upon initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group determines the classification of the financial liabilities on initial recognition. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in profit or loss, and transaction costs relating to other financial liabilities are included in the initially recognized amount.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

Such financial liabilities are subsequently measured at fair value, and all realized and unrealized gains or losses on these financial liabilities are recognized in profit or loss.

There's no financial liabilities designated at fair value through profit or loss upon initial recognition in the Group's consolidated statement during the reporting period.

*Other financial liabilities*

Other financial liabilities are subsequently measured at amortized cost using effective interest method on the financial reporting date.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Other equity instruments issued by the Group are recorded at the proceeds actually received, net of transaction costs that are directly attributable to equity transaction.

Derivative financial instruments

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

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions. For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. . When a valuation technique is used to establish the fair value of a financial instrument, the Group chooses the inputs of the assets and liabilities with the same attributes in related transactions between knowledgeable and willing parties, and maximises the use of relevant observable inputs when available. Under the situation where there are no observable inputs available or impractical to be obtained, unobservable inputs will be used.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**8. Financial instrument (Continued)**

Impairment of financial assets

The Group assesses at each balance sheet date the book value of a financial asset. If there is any objective evidence that a financial asset excluding those fair valued through profit or loss is impaired, a provision for impairment is recognized. Objective evidence indicating impairment of financial assets refers to the matter that actually occurs after the initial recognition of financial assets, it will affect estimated future cash flows of financial assets, and its impact can be reliably measured.

Objective evidence that a financial asset is impaired includes:

1. significant financial difficulties of the issuer or obligor;
2. a breach of contract, such as a default or delinquency in interest or principal payments;
3. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
4. it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
5. the disappearance of an active market for that financial asset because of financial difficulties;
6. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, national or local economic conditions that correlate with defaults on the assets in the group;
7. any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
8. a significant or prolonged decline in the fair value of an equity instrument; or
9. other objective evidence indicating impairment of the financial asset.

*Financial assets carried at amortized cost*

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (the effective interest rate determined by calculation upon initial recognition) taking into consideration the value of any related collateral. If a financial asset has a variable interest rate, the discount rate for measuring the present value of the future cash flows is the current effective interest rate contractually determined.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the comprehensive income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified through individually assessment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and impairment losses are or continue to be recognized are not included in a collective assessment of impairment.

When a financial asset is uncollectible, it is written off against the related provisions for impairment after all the necessary procedures have been completed.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The previously recognized impairment loss is reversed. The amount of the reversal is recognized in profit or loss.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**8. Financial instrument (Continued)**

Impairment of financial assets (Continued)

*Available-for-sale financial assets*

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at balance sheet date. If a decline in the fair value of an equity instrument is below its initial cost by 50% or more, or fair value is below cost for one year or longer at balance sheet date, it indicates that such an equity instrument is impaired; If such a decline in fair value is below its initial cost by 20% or more but not up to 50% at reporting date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired, The Group calculate the initial cost of available-for-sale equity instrument using weighted average method.

If available-for-sale financial asset at fair value is impaired, the cumulative loss from declines in fair value that had been recognized originally in other comprehensive income is reclassified to the profit or loss. The amount of the cumulative loss that is transferred out equals to the difference between its initial 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.

For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized in other comprehensive income.

If available-for-sale financial asset, which is measured at cost model, is impaired, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not recognized in profit or loss for the current period. The previously recognized impairment loss will not be reversed in subsequent periods.

Offsetting financial instruments

Financial assets and financial liabilities are presented separately in the balance sheet by the Group, and they shall not be offset against each other; except for the followings:

- (i) The Group has the legal right to offset the recognized amount, and the legal right is enforceable;
- (ii) The Group has the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**9. Assets purchased under resale agreements (“reverse repos”) and assets sold under repurchase agreements (“repos”)**

Reverse repo refers to the agreement under which the Group purchases an asset with an obligation to resell it to the same counterparty at a pre-determined price on a specified date. Reverse repo are recorded at the actual amount paid and presented in “assets purchased under resale agreements” on the balance sheet, while assets purchased are not recognized. Repo refers to the agreement under which the Group sells an asset with an obligation to repurchase it from the same counterparty at a pre-determined price on a specified date. Repos are recorded at the actual amounts received and presented in “assets sold under repurchase agreements” on the balance sheet, while assets sold are not derecognized. Interest earned from resale agreement and interest paid under repurchase agreement is recorded as interest income or interest expense respectively using effective interest method.

**10. Long-term equity investments**

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its associates.

Subsidiaries

Subsidiaries are the investees over which the Company is able to exercise control. Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements.

Long-term equity investments accounted for using the cost method are measured at initial investment cost. Cash dividends or profit distributions declared by the investees are recognized as investment income in profit or loss.

Associates

Associates are the investees that the Group has significant influence on their financial and operating policies.

Investments in associates are accounted for using the equity method. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method, the Group recognizes the investment income according to its share of net profit or loss of the investee. The Group discontinues recognizing its share of the net losses of an investee after the carrying amounts of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognizing the investment losses and the provisions. The changes of the Group's share of the investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution, are recognized in the Group's equity and the carrying amounts of the long-term equity investment are adjusted accordingly. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the transactions between the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, based on which the investment gain or losses are recognized. Any losses resulting from transactions between the Group and its investees attributable to asset impairment losses are not eliminated.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**11. Fixed assets**

Fixed assets mainly comprise buildings, motor vehicles, mainframe computers, computer equipment, electrical equipment, office equipment, etc.

Fixed assets shall be recognized only when the economic benefits associated with the asset will likely flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for fixed assets that meet the recognition criteria shall be included in the cost of the asset, and carrying amount of the component of the asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the impaired fixed assets, the annual depreciation amount should be calculated on the basis of carrying amount less impairment and estimated remaining useful life.

The estimated useful lives, estimated residual values and annual depreciation rates are as follows:

	Useful life	Estimated residual value	Annual depreciation rate
Buildings	20 years	4%	4.8%
Machinery equipment	5 years	4%	19.2%
Motor Vehicles	5 years	4%	19.2%
Computer and electronic equipment	5 years	4%	19.2%
Office equipment	5 years	4%	19.2%

The Group reviews the useful life, the estimated residual value and the depreciation methods at the end of each year and adjusts it if necessary.

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current period.

When the recoverable amount is lower than its carrying amount, it shall be written down immediately to the recoverable amount.

**12. Construction in progress**

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

When the recoverable amount is lower than its carrying amount, it shall be written down immediately to the recoverable amount.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**13. Intangible assets**

Intangible assets include land use rights and software purchased, and are measured at cost.

Land use right is amortized since the month of acquisition using straight-line method within its statutory useful life. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognized as fixed assets.

Software is amortized since month of acquisition using straight-line method within its estimated useful life.

The Group reviews the useful life of an intangible asset with a finite useful life at the end of each year and adjusts it if necessary.

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount.

**14. Long-term deferred expenses**

Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

**15. Foreclosed assets**

Foreclosed assets included in 'Other assets' are initially recognized at fair value. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

When disposing the foreclosed assets, the difference between the disposal income and the book value of the foreclosed assets is included in profit or loss for the current period.

If the Group transferred foreclosed assets for its own use, the foreclosed assets should be carried forward as the book value at the transaction date. If the foreclosed assets have provision, the provision should also be carried forward.

**16. Impairment of long-term assets**

Fixed assets, construction in progress, intangible assets with finite useful lives and equity investments in subsidiaries and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**17. Provisions**

Provisions are recognized by the Group when obligations related to contingent matters meet all the following conditions:

- (i) The Group has present legal or constructive obligations as a result of past events;
- (ii) It is probable that an outflow of resources from the Group will be required to settle the obligation; and
- (iii) The amount has been reliably estimated.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

**18. Dividend distribution**

Cash dividend is recognized as a liability for the period in which the dividend is approved by the shareholders' meeting.

**19. Fiduciary activities**

The Group acts as an agent to safeguard assets for customers, which are not recognized in the Group's balance sheet. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody.

The Group also operates entrusted loans business. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds. Entrusted loans are not recognised in the Group's consolidated balance sheet.

**20. Revenue and expense recognition**

**(1) Interest income and interest expense**

Interest income and expense are recognized at amortised cost of financial assets and financial liabilities in profit or loss using the effective interest method.

**(2) Fee and commission income**

Commission income is recognized when the services have been rendered and the proceeds can be reasonably estimated.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**21. Employee benefits**

Employee benefits include short-term employee benefits, post-employment benefits, early retirement benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

**(1) Short-term employee benefits**

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognized in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period.

**(2) Post-employment benefits**

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include social security insurance and unemployment insurance, which are defined contribution plans.

**Basic pensions**

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognized as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period.

**(3) Early retirement benefits**

The Group offers early retirement benefits to those employees who accept early retirement arrangements. The early retirement benefits refer to the salaries and social security contributions to be paid to and for the employees who accept voluntary retirement before the normal retirement date prescribed by the State, as approved by the management. The Group pays early retirement benefits to those early retired employees from the early retirement date until normal retirement date. The Group accounts for the early retirement benefits in accordance with the treatment of termination benefits, in which the salaries and social security contributions to be paid to and for the early retired employees from the off-duty date to the normal retirement date are recognized as liabilities with a corresponding charge to the profit or loss for the current period. The differences arising from the changes in the respective actuarial assumptions of the early retirement benefits and the adjustments of benefit standards are recognized in profit or loss in the period in which they occur.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**22. Income taxes**

Income tax expense includes current income tax and deferred income tax. Income taxes are recognized as an expense or income and include in profit or loss, except to the extent that the tax arises from a business combination or if it relates to a transaction or event which is recognized directly in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years. The calculations of current tax liabilities or assets of the group for the current and prior periods are based on the expected payable or refundable amount of income taxes which the tax laws is permitted.

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognized for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and, that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

**23. Leases**

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease. Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are charged as an expense for the current period.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**24. Segment report**

The Group identifies operating segment on the basis of internal organization structure, management requirement and internal report system, and forms the segment report and discloses the segment information based on operating segment.

Operating segment represents the segment satisfying the following conditions at the same time: (i) the segment produces income and expense in daily activities; (ii) the Group's management regularly evaluates the performance of the segment, and decides to allocate resources to the segment and to assess its performance; and (iii) the Group can obtain financial position, operation performance, cash flow and other relevant accounting information of the segment. Two or more operating segments with similar economic characteristics are combined into an operating segment, provided that certain conditions are met.

**25. Financial guarantee contract**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to profit or loss. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

**26. Critical accounting estimates and judgements**

The Group makes regular assessments on accounting judgments and estimates based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to significant changes in estimates and judgments, which affect the carrying value of assets and liabilities of next accounting period, are set out below. It is possible that actual results may be materially different from the estimates and judgments referred below.

**(1) Impairment losses on loans and advances to customers**

Except for the identified impaired loans that are individually assessed for the impairment losses, the Bank reviews loan portfolios to assess impairment on a periodic basis. In determining whether provisions of impairment on loans are recognized, the Bank makes judgements as to whether there is indication of impairment which will have a decrease in the estimated future cash flows from portfolios composed of loans which are found to have no decrease in cash flows in an individual test. This evidence may include observable data indicating that there has been an adverse change in the payment status of lessee in a group (e.g. payment delinquency or default), or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The management regularly reviews the methods and assumptions adopted to forecast the future cash flows to reduce the difference between the estimated loss and actual loss.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

**26. Critical accounting estimates and judgements (Continued)**

(2) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation technique. Valuation technique includes using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group uses market information in maximum extent. However, if market information is not available, management might estimate the credit risk, market fluctuations and relevance of the Group and its counterpart. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(3) Held-to-maturity investments

The classification of held-to-maturity investment requires significant judgment. If there are deviations to the judgment that Group has clear intentions and capabilities to hold certain investment to the maturity date, the whole investment portfolio might be subsequently reclassified to available-for-sale financial assets.

(4) Income taxes

Significant judgement is required from the Group in determining the provision for income taxes. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. In accordance with the current tax laws and regulations as well as the policies applicable to the Bank from competent government authorities in the previous years, the Bank make tax estimates on the implementation of new tax laws and regulations as well as events involving uncertainties in tax treatment. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**27. Taxation**

The main categories and rates of taxes applicable to the Group are set out below:

Taxes/surcharges	Tax/surcharge base	Tax and surcharge rate
Value-added tax ("VAT") / business tax	Income subject to tax	3%
City maintenance and construction tax	VAT and business tax payable	5%
Educational surcharge	VAT and business tax payable	3%
Local education surcharge	VAT and business tax payable	2%
Income taxes	Taxable income	25%

According to the third article of "Notice of the State Administration of Taxation and Ministry of Finance on Further Clarifying the Policy on Promoting the Financial Industry Business Tax to Value Added Tax Pilot" (Cai Shui [2016] No.46), financial service income of rural credit cooperatives, rural banks, rural credit cooperatives, loan institutions established by the banking institutions, the legal institutions in the county (county-level city, district, flag) and the county below the rural cooperative banks and rural commercial banks, can choose to apply a simple tax method to pay Value Added Tax at rate of 3%. Therefore, since May 1, 2016, the Group paid Value Added Tax of loan interest income, bank card business, foreign exchange business, settlement business fee income at rate of 3%. Prior to May 1, 2016, the above business applies Business Tax at rate of 3%.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS**

**1. Cash and balances with the central bank**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Cash	204,389,896	172,400,662	202,960,536
Mandatory reserves with the central bank	4,707,645,665	5,078,814,242	4,689,491,566
Excess reserves with the central bank	936,472,934	970,845,744	934,333,212
Fiscal deposits with the central bank	4,792,000	8,905,000	4,792,000
<b>Total</b>	<b>5,853,300,495</b>	<b>6,230,965,648</b>	<b>5,831,577,314</b>

The Group is required to place mandatory reserves with the PBOC, which are not allowed to be used in the Group's daily operations. The Bank's reserve rates for deposits denominated in RMB are 12.5% and 12% at 31 December 2015 and 2016 respectively. The reserve rate for deposits denominated in foreign currencies is 5%.

**2. Due from banks and other financial institutions**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Due from domestic banks	6,233,944,614	4,370,486,487	6,204,990,379
Due from overseas banks	27,927,691	144,366,288	27,927,691
<b>Total</b>	<b>6,261,872,305</b>	<b>4,514,852,775</b>	<b>6,232,918,070</b>

**3. Financial assets purchased under resale agreements**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Bonds purchased under resale agreements	-	152,000,000	-
<b>Total</b>	<b>-</b>	<b>152,000,000</b>	<b>-</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**4. Interest receivable**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Balance with the central bank and inter-bank	13,682,254	27,446,027	13,683,076
Financial assets purchased under resale agreements	-	47,974	-
Loans	56,841,959	56,612,593	55,693,332
Bonds	156,820,939	245,624,028	156,820,939
Wealth management products of other banks and asset management plans	38,687,641	61,393,918	38,687,641
<b>Total</b>	<b>266,032,793</b>	<b>391,124,540</b>	<b>264,884,988</b>

**5. Loans and advances to customers**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Corporate loans			
Commercial loans	17,557,328,310	18,527,025,584	17,369,821,504
Trade finance	41,650,470	47,067,498	41,650,470
Advances	1,000,000	8,117,459	1,000,000
Discounted bills	1,897,185,997	2,234,632,280	1,897,185,997
Retail loans			
Mortgage loans	267,492,753	464,738,016	257,815,153
Loans to finance family business	4,681,006,294	4,730,041,712	4,596,081,616
Consumer loan	207,782,018	228,001,817	207,782,018
Credit card and overdraft	110,949,247	87,855,294	110,949,247
Others	407,715,468	635,384,348	407,715,468
<b>Gross loans and advances to customers</b>	<b>25,172,110,557</b>	<b>26,962,864,008</b>	<b>24,890,001,473</b>
Individual impairment allowances	(102,327,543)	(170,248,623)	(98,739,066)
Collective impairment allowances	(714,990,601)	(711,417,768)	(710,098,886)
Total impairment allowances	(817,318,144)	(881,666,391)	(808,837,952)
<b>Loans and advances to customers, net</b>	<b>24,354,792,413</b>	<b>26,081,197,617</b>	<b>24,081,163,521</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. Loans and advances to customers (Continued)**

**5.1. Loans and advances to customers analysed by industry**

Group	2015-12-31	
	Amount	(%)
<b>Corporate loans</b>		
Manufacturing	11,538,470,396	45.84
Wholesale and retail	1,902,428,384	7.56
Construction	1,781,080,000	7.08
Lease and commercial service	830,490,000	3.30
Water, environment and public facilities management	218,500,000	0.87
Agriculture, forestry, farming and fishery	494,410,000	1.96
Real estate	294,650,000	1.17
Hotel and catering	261,000,000	1.04
Transportation, warehouse and postal services	80,700,000	0.32
Culture, sports and entertainment	42,500,000	0.17
Others	155,750,000	0.61
	<u>17,599,978,780</u>	<u>69.92</u>
Discounted bills		
Discounted bank acceptances	279,051,032	1.11
Re-discount	1,522,081,465	6.05
Discounted commercial acceptances	96,053,500	0.38
	<u>1,897,185,997</u>	<u>7.54</u>
<b>Retail loans</b>	<u>5,674,945,780</u>	<u>22.54</u>
<b>Total</b>	<u>25,172,110,557</u>	<u>100.00</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. Loans and advances to customers (Continued)**

**5.1 Loans and advances to customers analysed by industry (Continued)**

Bank	2016-12-31		2015-12-31	
	Amount	(%)	Amount	(%)
<b>Corporate loans</b>				
Manufacturing	12,241,557,352	45.40	11,518,870,396	46.26
Wholesale and retail	1,605,459,482	5.95	1,754,521,578	7.05
Construction	1,580,512,000	5.86	1,776,080,000	7.14
Lease and commercial service	891,047,709	3.30	830,490,000	3.34
Water, environment and public facilities management	653,500,000	2.42	218,500,000	0.88
Agriculture, forestry, farming and fishery	557,710,000	2.07	489,410,000	1.97
Real estate	483,410,000	1.79	294,650,000	1.18
Hotel and catering	271,350,000	1.01	256,000,000	1.03
Transportation, warehouse and postal services	126,613,998	0.47	80,700,000	0.32
Culture, sports and entertainment	108,500,000	0.41	42,500,000	0.17
Others	62,550,000	0.24	150,750,000	0.61
<b>Total</b>	<b>18,582,210,541</b>	<b>68.92</b>	<b>17,412,471,974</b>	<b>69.95</b>
Discounted bills				
Discounted bank acceptances	220,415,631	0.82	279,051,032	1.12
Re-discount	1,994,772,538	7.40	1,522,081,465	6.12
Discounted commercial acceptances	19,444,111	0.07	96,053,500	0.39
	<b>2,234,632,280</b>	<b>8.29</b>	<b>1,897,185,997</b>	<b>7.63</b>
<b>Retail loans</b>	<b>6,146,021,187</b>	<b>22.79</b>	<b>5,580,343,502</b>	<b>22.42</b>
<b>Total</b>	<b>26,962,864,008</b>	<b>100.00</b>	<b>24,890,001,473</b>	<b>100.00</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. Loans and advances to customers (Continued)**

**6.2 Loans and advances to customers analysed by collateral type**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Collateralised loans	10,065,441,291	11,850,696,448	10,020,761,291
Guaranteed loans	12,515,473,692	11,907,117,273	12,283,290,608
Unsecured loans	306,565,626	277,127,994	301,370,026
Pledged loans	2,284,629,948	2,927,922,293	2,284,579,548
Gross loans and advances to customers	25,172,110,557	26,962,864,008	24,890,001,473

**5.3 Overdue loans and advances to customers**

Group	31/12/2015				Total
	Past due up to 90 days (inclusive)	Past due 90 days to 1 year (inclusive)	Past due 1 year to 3 years (inclusive)	Past due over 3 years	
Collateralized	2,611,660	146,714,921	16,071,350	2,913,291	168,311,222
Guaranteed	16,183,351	71,735,284	13,525,098	3,405,821	104,849,554
Unsecured	160,709	516,137	420,252	808,520	1,905,618
Total	18,955,720	218,966,342	30,016,700	7,127,632	275,066,394

  

Bank	31/12/2016				Total
	Past due up to 90 days (inclusive)	Past due 90 days to 1 year (inclusive)	Past due 1 year to 3 years (inclusive)	Past due over 3 years	
Collateralized	110,498,702	135,091,965	23,298,736	2,999,178	271,888,581
Guaranteed	50,464,933	139,973,577	11,655,699	1,229,650	203,323,859
Unsecured	250,754	597,835	49,346	-	897,935
Total	161,214,389	275,663,377	35,003,781	4,228,828	476,110,375

  

Bank	31/12/2015				Total
	Past due up to 90 days (inclusive)	Past due 90 days to 1 year (inclusive)	Past due 1 year to 3 years (inclusive)	Past due over 3 years	
Collateralized	2,611,660	146,134,921	16,071,350	2,913,291	167,731,222
Guaranteed	5,047,332	59,862,317	13,525,098	3,405,821	81,840,568
Unsecured	160,709	516,137	420,252	808,520	1,905,618
Total	7,819,701	206,513,375	30,016,700	7,127,632	251,477,408

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. Loans and advances to customers (Continued)**

**5.4 Allowance for impairment of loans and advances to customers**

Group	2016		Total
	Individually assessed	Collectively assessed	
Balance at beginning of the year	102,327,543	714,990,601	817,318,144
Charge for the year	239,186,897	5,909,026	245,095,923
Write-off	(174,166,823)	-	(174,166,823)
Transfer-out due to disposal of subsidiaries	(6,955,726)	(9,481,859)	(16,437,585)
Recovery of loans and advances written off in previous years	9,856,732	-	9,856,732
<b>Balance at end of the year</b>	<b>170,248,623</b>	<b>711,417,768</b>	<b>881,666,391</b>
Group	2015		Total
	Individually assessed	Collectively assessed	
Balance at beginning of the year	38,800,813	729,150,298	767,951,111
Charge for the year	149,378,464	(14,159,697)	135,218,767
Write-off	(37,813,292)	-	(37,813,292)
Transfer-out	(51,434,210)	-	(51,434,210)
Recovery of loans and advances written off in previous years	3,395,768	-	3,395,768
<b>Balance at end of the year</b>	<b>102,327,543</b>	<b>714,990,601</b>	<b>817,318,144</b>
Bank	2016		Total
	Individually assessed	Collectively assessed	
Balance at beginning of the year	98,739,066	710,098,886	808,837,952
Charge for the year	235,819,648	1,318,882	237,138,530
Write-off	(174,166,823)	-	(174,166,823)
Recovery of loans and advances written off in previous years	9,856,732	-	9,856,732
<b>Balance at end of the year</b>	<b>170,248,623</b>	<b>711,417,768</b>	<b>881,666,391</b>
Bank	2015		Total
	Individually assessed	Collectively assessed	
Balance at beginning of the year	38,800,813	725,138,811	763,939,624
Charge for the year	145,789,987	(15,039,925)	130,750,062
Write-off	(37,813,292)	-	(37,813,292)
Transfer-out	(51,434,210)	-	(51,434,210)
Recovery of loans and advances written off in previous years	3,395,768	-	3,395,768
<b>Balance at end of the year</b>	<b>98,739,066</b>	<b>710,098,886</b>	<b>808,837,952</b>

The Group did not transfer any impaired loan to third party in 2016 (2015: transferred a package of impaired loans which the balance was RMB 81,434,210 at the price of RMB 30,000,000).

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. Loans and advances to customers (Continued)**

**5.5 Loans and advances to customers analysed by approach of impairment assessment**

Group	Non-impaired loans subject to collective assessment	Impaired loans			Total
		Collective assessment	Individual assessment	Sub-total	
As at 31 December 2015					
Corporates loans	19,266,541,432	13,799,531	216,823,814	230,623,345	19,497,164,777
Retail loans	5,624,205,408	50,740,372	-	50,740,372	5,674,945,780
	<u>24,890,746,840</u>	<u>64,539,903</u>	<u>216,823,814</u>	<u>281,363,717</u>	<u>25,172,110,557</u>
Allowance for impairment	(683,118,846)	(31,871,755)	(102,327,543)	(134,199,298)	(817,318,144)
Loan and advances to customers, net	<u>24,207,627,994</u>	<u>32,668,148</u>	<u>114,496,271</u>	<u>147,164,419</u>	<u>24,354,792,413</u>
Bank					
	Non-impaired loans subject to collective assessment	Impaired loans			Total
		Collective assessment	Individual assessment	Sub-total	
As at 31 December 2016					
Corporates loans	20,494,621,609	12,852,000	309,369,212	322,221,212	20,816,842,821
Retail loans	6,065,915,484	80,105,703	-	80,105,703	6,146,021,187
	<u>26,560,537,093</u>	<u>92,957,703</u>	<u>309,369,212</u>	<u>402,326,915</u>	<u>26,962,864,008</u>
Allowance for impairment	(666,425,969)	(44,991,799)	(170,248,623)	(215,240,422)	(881,666,391)
Loan and advances to customers, net	<u>25,894,111,124</u>	<u>47,965,904</u>	<u>139,120,589</u>	<u>187,086,493</u>	<u>26,081,197,617</u>
As at 31 December 2015					
Corporates loans	19,085,935,413	13,386,617	210,335,941	223,722,558	19,309,657,971
Retail loans	5,535,155,310	45,188,192	-	45,188,192	5,580,343,502
	<u>24,621,090,723</u>	<u>58,574,809</u>	<u>210,335,941</u>	<u>268,910,750</u>	<u>24,890,001,473</u>
Allowance for impairment	(678,445,186)	(31,653,700)	(98,739,066)	(130,392,766)	(808,837,952)
Loan and advances to customers, net	<u>23,942,645,537</u>	<u>26,921,109</u>	<u>111,596,875</u>	<u>138,517,984</u>	<u>24,081,163,521</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. Available-for-sale financial assets**

	Group	Bank	
	31 December 2015	31 December 2016	31 December 2015
At fair value			
Wealth management products (Note 1)	5,316,940,000	4,470,200,000	5,316,940,000
Asset management plans (Note 1)	-	3,403,330,000	-
Bonds issued by policy banks	972,995,067	8,266,663,220	972,995,067
Government bonds	656,943,909	2,545,560,540	656,943,909
Corporate bonds	297,317,772	943,733,308	297,317,772
Deposit certificates issued by other financial institutions	-	2,427,302,011	-
Equity investments	187,425,012	197,413,048	187,425,012
Other (Note 2)	30,000,000	30,000,000	30,000,000
	<u>7,461,621,760</u>	<u>22,284,202,127</u>	<u>7,461,621,760</u>
At cost (Note 3)			
Equity investment	600,000	600,000	600,000
Total	<u>7,462,221,760</u>	<u>22,284,802,127</u>	<u>7,462,221,760</u>

Note 1: The underlying assets are mainly bonds with grading above AA in inter-bank bond market.

Note 2: Other available-for-sale financial assets are inter-bank market joint investment product purchased by the Bank.

Note 3: The equity investment in Jiangsu rural credit cooperative association was measured at cost. These equity investments did not have quoted market price in an active market and, the variation range of reasonable estimate of fair value was large, also, the probability to determine the estimations of the fair value could not be reasonably determined. There's no plan of disposal of this investment for the Group.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**(a) Available-for-sale financial assets analysis as follows:**

Available-for-sale financial assets at fair value

	Group	Bank	
	31 December 2015	31 December 2016	31 December 2015
Available-for-sale debentures and deposit certificates issued by other banks			
-Fair value	1,927,256,748	14,183,259,079	1,927,256,748
-Amortized cost	1,903,427,516	14,309,889,051	1,903,427,516
-Accumulated gain or loss into other comprehensive income	23,829,232	(126,629,972)	23,829,232
Available-for-sale equity investment			
-Fair value	187,425,012	197,413,048	187,425,012
-Cost	122,250,000	122,250,000	122,250,000
-Accumulated gain or loss into other comprehensive income	65,175,012	75,163,048	65,175,012
Other investments			
-Fair value	5,346,940,000	7,903,530,000	5,346,940,000
-Amortized cost/cost	5,346,940,000	7,903,530,000	5,346,940,000
-Accumulated gain or loss into other comprehensive income	-	-	-
Total			
-Fair value	7,461,621,760	22,284,202,127	7,461,621,760
-Amortized cost/cost	7,372,617,516	22,335,669,051	7,372,617,516
-Accumulated gain or loss into other comprehensive income	89,004,244	(51,466,924)	89,004,244

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**7. Investment securities held-to-maturity**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Government bonds	1,750,682,696	-	1,750,682,696
Bonds issued by policy banks	3,106,532,313	-	3,106,532,313
Bonds issued by local municipal governments	49,134,200	-	49,134,200
Bonds issued by financial institutions	240,394,300	-	240,394,300
Corporate bonds	921,953,013	-	921,953,013
Deposit certificates issued by other financial institutions	-	-	-
<b>Total</b>	<b>6,068,696,522</b>	<b>-</b>	<b>6,068,696,522</b>

Due to the fluctuations of bond market in 2016, the Company disposed some bonds with big fair value fluctuation which were originally classified as held-to-maturity, therefore, all remaining held-to-maturity bonds were reclassified as available-for-sales financial assets.

**8. Long-term equity investments**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Associates			
- Unquoted	8,496,546	8,506,491	8,496,546
Subsidiaries (Note IV)	-	-	51,000,000
<b>Total</b>	<b>8,496,546</b>	<b>8,506,491</b>	<b>59,496,546</b>

The Company does not have significant restrictions in long-term equity investments realization.

There is no restriction for capital transfer from the subsidiaries and associate to the Company.

**(a) Long-term equity investments accounted for using equity method**

Name of entity	2015-12-31	Share of profit or loss	2016-12-31
Xiuwen Jianghai Village Bank Limited	8,496,546	9,945	8,506,491

The equity proportion of Xiuwen Jianghai Village Bank Limited held by the Company was 15%. The Company was able to have significant influences on the entity because 2 of its 7 directors were appointed by the Company. The Company recognized the entity as associate accordingly.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**9. Fixed assets**

Group	2015-12-31	Additions	Disposals	2016-12-31
Cost	433,099,000	51,405,817	(36,825,443)	447,679,374
Land and buildings	322,630,217	42,027,178	(30,782,038)	333,875,357
Machines and other equipment	21,065,908	1,489,815	(1,742,424)	20,813,299
Electronic equipment	68,949,408	7,007,340	(3,077,628)	72,879,120
Motor vehicles	6,780,088	633,800	(1,083,903)	6,329,985
Others	13,673,379	247,684	(139,450)	13,781,613
Accumulated depreciation	178,420,764	25,991,877	(9,055,882)	195,356,759
Land and buildings	102,778,867	13,316,199	(5,721,701)	110,373,365
Machines and other equipment	15,398,738	2,522,126	(1,011,338)	16,909,526
Electronic equipment	50,299,031	7,639,766	(1,454,755)	56,484,042
Motor vehicles	3,962,750	1,260,950	(734,074)	4,489,626
Others	5,981,378	1,252,836	(134,014)	7,100,200
Net book value	254,678,236			252,322,615
Land and buildings	219,851,350			223,501,992
Machines and other equipment	5,667,170			3,903,773
Electronic equipment	18,650,377			16,395,078
Motor vehicles	2,817,338			1,840,359
Others	7,692,001			6,681,413

The depreciation expenses recognized in profit or loss for the year ended 31 December 2016 was RMB 25,991,877.

Bank	2015-12-31	Additions	Disposals	2016-12-31
Cost	400,886,674	50,222,603	(3,429,903)	447,679,374
Land and buildings	293,802,769	42,027,178	(1,954,590)	333,875,357
Machines and other equipment	20,179,617	1,265,004	(631,322)	20,813,299
Electronic equipment	67,534,724	6,048,937	(704,541)	72,879,120
Motor vehicles	5,696,185	633,800	-	6,329,985
Others	13,673,379	247,684	(139,450)	13,781,613
Accumulated depreciation	174,810,154	23,777,233	(3,230,628)	195,356,759
Land and buildings	100,270,867	11,981,139	(1,878,641)	110,373,365
Machines and other equipment	15,173,900	2,347,903	(612,277)	16,909,526
Electronic equipment	49,848,759	7,240,979	(605,696)	56,484,042
Motor vehicles	3,535,250	954,376	-	4,489,626
Others	5,981,378	1,252,836	(134,014)	7,100,200
Net book value	226,076,520			252,322,615
Land and buildings	193,531,902			223,501,992
Machines and other equipment	5,005,717			3,903,773
Electronic equipment	17,685,965			16,395,078
Motor vehicles	2,160,935			1,840,359
Others	7,692,001			6,681,413

The depreciation expenses recognized in profit or loss for the year ended 31 December 2016 was RMB 23,777,233.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**10. Construction in progress**

Group	2015-12-31	Additions	Transfer out	2016-12-31
Buildings	49,809,832	15,419,912	(52,015,856)	13,213,888
Others	823,400	1,000,559	(1,253,000)	570,959
<b>Total</b>	<b>50,633,232</b>	<b>16,420,471</b>	<b>(53,268,856)</b>	<b>13,784,847</b>

Bank	2015-12-31	Additions	Transfer out	2016-12-31
Buildings	32,628,528	14,279,294	(33,693,934)	13,213,888
Others	823,400	1,000,559	(1,253,000)	570,959
<b>Total</b>	<b>33,451,928</b>	<b>15,279,853</b>	<b>(34,946,934)</b>	<b>13,784,847</b>

**11. Intangible assets**

Group and Bank	2015-12-31	Additions	Disposals	2016-12-31
<b>Cost</b>	<b>104,326,570</b>	<b>6,064,969</b>	<b>-</b>	<b>110,391,539</b>
Land use rights	96,297,575	3,177,469	-	99,475,044
Software	7,984,551	2,872,500	-	10,857,051
Others	44,444	15,000	-	59,444
<b>Accumulated amortisation</b>	<b>6,227,708</b>	<b>3,805,696</b>	<b>-</b>	<b>10,033,404</b>
Land use rights	1,655,162	2,433,910	-	4,089,072
Software	4,528,102	1,371,661	-	5,899,763
Others	44,444	125	-	44,569
<b>Net book value</b>	<b>98,098,862</b>			<b>100,358,135</b>
Land use rights	94,642,413			95,385,972
Software	3,456,449			4,957,288
Others	-			14,875

The amortisation expenses recognized in profit or loss for the year ended 31 December 2016 was RMB 3,805,696.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. Deferred tax assets**

Deferred tax assets and liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Bank	31/12/2016	
	Deductible temporary differences	Deferred tax assets/(liabilities)
Provision for asset impairments	588,751,043	147,187,761
Employee benefits payable	39,933,789	9,983,447
Fair value change of available-for-sale financial assets	51,466,923	12,866,731
Deferred tax assets without taking into consideration the offsetting of balances	680,151,755	170,037,939
Other	(4,892)	(1,223)
Deferred tax liabilities without taking into consideration the offsetting of balances	(4,892)	(1,223)
Deferred tax assets, net	680,146,863	170,036,716
Group and Bank	31/12/2015	
	Deductible temporary differences	Deductible temporary differences
Provision for asset impairments	554,783,552	138,695,888
Employee benefits payable	17,674,197	4,418,549
Deferred tax assets without taking into consideration the offsetting of balances	572,457,749	143,114,437
Fair value change of available-for-sale financial assets	(89,004,244)	(22,251,061)
Derivative financial instruments	(37,800)	(9,450)
Deferred tax liabilities without taking into consideration the offsetting of balances	(89,042,044)	(22,260,511)
Deferred tax assets, net	483,415,705	120,853,926

The offset of the deferred tax assets and liabilities for the year ended 31 December 2015 and 2016 were RMB 22,260,511 and RMB 1,223 respectively.

Group and company's movement of deferred tax assets is as follows:

	2016	2015
Balance at beginning of the year	120,853,926	136,569,419
Charge to profit or loss	14,064,998	(3,450,322)
Charge to other comprehensive income	35,117,792	(12,265,171)
Balance at end of the year	170,036,716	120,853,926

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**13. Other assets**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Foreclosed assets	-	11,000,097	-
Other receivables	5,528,709	4,539,339	5,447,058
<b>Total</b>	<b>5,528,709</b>	<b>15,539,436</b>	<b>5,447,058</b>

Foreclosed assets were mainly properties and the Company planned to dispose them in future.

**14. Due to banks and other financial institutions**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Due to domestic banks	1,334,138,495	1,794,356,158	1,347,162,852
Due to other domestic financial institutions	455	-	455
<b>Total</b>	<b>1,334,138,950</b>	<b>1,794,356,158</b>	<b>1,347,163,307</b>

**15. Placements from banks and other financial institutions**

As at 31 December 2016, all placements from banks and other financial institutions of the Group and the Company were placements from domestic banks.

**16. Financial assets sold under repurchase agreements**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Bonds	4,901,315,617	8,364,800,000	4,901,315,617
Bills	91,043,955	102,965,204	91,043,955
<b>Total</b>	<b>4,992,359,572</b>	<b>8,467,765,204</b>	<b>4,992,359,572</b>

**17. Deposits from customers**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Current deposits			
-Corporate	1,897,262,356	3,607,418,900	1,696,709,905
-Retail	2,619,825,814	3,153,977,336	2,586,151,842
Time deposits			
-Corporate	1,326,297,664	1,536,147,268	1,326,297,664
-Retail	28,055,028,647	30,074,060,347	28,044,508,940
Pledged deposits	1,114,572,135	996,401,260	1,087,781,700
Fiscal deposits	2,550,638,342	3,140,879,065	2,550,638,342
Other deposits	159,437,054	235,882,309	159,437,054
<b>Total</b>	<b>37,723,062,012</b>	<b>42,744,766,485</b>	<b>37,451,525,447</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**18. Employee benefits payable**

	Group		Bank	
	2015-12-31	2016-12-31	2015-12-31	2016-12-31
Short-term employee benefits payable	60,409,157	59,684,912	56,846,367	
Long-term employee benefits payable	40,562,796	38,535,835	40,562,796	
<b>Total</b>	<b>100,971,953</b>	<b>98,220,747</b>	<b>97,409,163</b>	
<b>Group</b>				
	31/12/2015	Addition	Payment	31/12/2016
Short-term employee benefits				
Wages and salaries, bonus, allowances and subsidies	41,032,614	157,151,617	160,295,850	37,888,381
Staff welfare	-	26,649,988	26,649,988	-
Social security contributions	19,376,543	49,855,940	47,435,952	21,796,531
Housing funds	-	27,436,778	27,436,778	-
Labour union funds and employee education funds	-	3,031,606	3,031,606	-
Long-term employee benefits				
Early retirement benefits	17,674,196	1,098,758	1,839,165	16,933,789
Retirement benefits	22,888,600	665,639	1,952,193	21,602,046
<b>Total</b>	<b>100,971,953</b>	<b>265,890,326</b>	<b>268,641,532</b>	<b>98,220,747</b>
<b>Bank</b>				
	31/12/2015	Addition	Payment	31/12/2016
Short-term employee benefits				
Wages and salaries, bonus, allowances and subsidies	37,469,824	150,651,017	150,232,460	37,888,381
Staff welfare	-	26,070,201	26,070,201	-
Social security contributions	19,376,543	49,855,940	47,435,952	21,796,531
Housing funds	-	27,077,507	27,077,507	-
Labour union funds and employee education funds	-	2,981,600	2,981,600	-
Long-term employee benefits				
Early retirement benefits	17,674,196	1,098,758	1,839,165	16,933,789
Retirement benefits	22,888,600	665,639	1,952,193	21,602,046
<b>Total</b>	<b>97,409,163</b>	<b>258,400,662</b>	<b>257,589,078</b>	<b>98,220,747</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**19. Taxes payable**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Income taxes	36,103,860	50,300,200	34,221,907
Value added tax	-	7,142,649	-
Business tax	15,643,745	-	15,554,805
City maintenance and construction tax	848,051	715,654	841,825
Educational surcharge	847,169	715,654	842,722
Withholding individual income tax	1,734,401	1,685,724	1,734,401
Others	703,163	930,999	697,594
<b>Total</b>	<b>55,880,389</b>	<b>61,490,880</b>	<b>53,893,254</b>

**20. Interest payable**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Interest payable for customer deposits	1,459,735,389	1,626,904,267	1,459,255,089
Interest payable for inter-bank balance	1,630,600	12,807,897	1,631,422
Interest payable for securities sold under repurchase agreements	369,168	15,099,933	369,168
<b>Total</b>	<b>1,461,735,157</b>	<b>1,654,812,097</b>	<b>1,461,255,679</b>

**21. Bonds issued**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Assets backed securities (Note 1)	211,900,000	-	211,900,000
<b>Total</b>	<b>211,900,000</b>	<b>-</b>	<b>211,900,000</b>

Note 1: In 2015, the Group issued RMB 311,900,000 asset backed securities, including RMB 211,900,000 of senior tranche and RMB 100,000,000 subordinated tranche, of which underlying assets were loans to customers amounting to RMB 311,900,000. The Group holds all subordinated tranche of the securities, therefore the underlying loan assets cannot be derecognized, and proceeds from the issuance of senior tranche was recognized as liabilities. All senior tranche matured on 25 July 2016.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****22. Other liabilities**

	Group	Bank	
	2015-12-31	2016-12-31	2015-12-31
Other payables	83,827,736	58,338,798	82,621,145
Fiscal deposits in transition	3,180,185	3,113,313	3,180,185
Total	<u>87,007,921</u>	<u>61,452,111</u>	<u>85,801,330</u>

**23. Paid-in capital**

Bank	2016-12-31	2015-12-31
Legal person	736,446,000	588,898,000
Natural person	263,554,000	261,102,000
Total	<u>1,000,000,000</u>	<u>850,000,000</u>

According to the application approved by China Banking Regulatory Commission Nantong branch on 9 September 2016. As of 8 November 2016, the Company received RMB 600 million from shareholders, including paid-in capital of RMB 150 million and premium of RMB 450 million. The premium was recognised in capital surplus and the paid-in capital was increased to RMB 1 billion.

**24. Capital surplus**

Group and Bank	2016-12-31	2015-12-31
Share premium	<u>1,056,000,000</u>	<u>606,000,000</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**25. Other comprehensive income**

Group and Bank	Other comprehensive income in balance sheet			Other comprehensive income in income statement in 2016				
	31/12/2015	Attributable to the Company after tax	31/12/2016	Amount before tax	Less: Transfer to profit or loss in current year	Less: tax:	attributable to the Company after tax	attributable to minority interest after tax
Items that may be subsequently reclassified to profit or loss								
- Unrealized gains/(losses) from available-for-sale financial assets	66,753,183	(105,353,375)	(38,600,192)	(151,297,247)	(10,826,080)	(35,117,792)	(105,353,375)	-
	Other comprehensive income in balance sheet			Other comprehensive income in income statement in 2015				
	31/12/2014	attributable to the Company after tax	31/12/2015	Amount before tax	Less: Transfer to profit or loss in current year	Less: tax:	attributable to the Company after tax	attributable to minority interest after tax
Items that may be subsequently reclassified to profit or loss								
- Unrealized gains/(losses) from available-for-sale financial assets	29,957,669	36,795,514	66,753,183	48,424,307	(636,378)	12,265,171	36,795,514	-

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****26. Surplus reserves**

Group and Bank	31/12/2015	Increase	31/12/2016
Statutory reserve	271,589,346	48,671,231	320,260,577
Discretionary reserve	442,088,100	257,854,235	699,942,335
Total	<u>713,677,446</u>	<u>306,525,466</u>	<u>1,020,202,912</u>

  

Group and Bank	2014-12-31	Increase	31/12/2015
Statutory reserve	220,181,598	51,407,748	271,589,346
Discretionary reserve	112,056,435	330,031,665	442,088,100
Total	<u>332,238,033</u>	<u>381,439,413</u>	<u>713,677,446</u>

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid-in capital after approval from the appropriate authorities. In 2015 and 2016, the Company makes appropriation of 10% of current net profit, RMB 51,407,748 and RMB 48,671,231 respectively.

After appropriating the statutory reserve, the Company can appropriate discretionary reserve. The Company appropriates for the discretionary reserve after the approval by the shareholders' meeting. The discretionary reserve can be used to make up for the loss or increase the paid-in capital after approval from the appropriate authorities.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****27. General risk reserve**

Group and Bank	31/12/2015	Increase	31/12/2016
Profit distribution	1,014,021,730	102,815,496	1,116,837,226
Government subsidies	21,268,800	1,364,300	22,633,100
Total	<u>1,035,290,530</u>	<u>104,179,796</u>	<u>1,139,470,326</u>

  

Group and Bank	2014-12-31	Increase	31/12/2015
Profit distribution	1,014,021,730	-	1,014,021,730
Government subsidies	18,628,800	2,640,000	21,268,800
Total	<u>1,032,650,530</u>	<u>2,640,000</u>	<u>1,035,290,530</u>

Pursuant to Caijin [2012] No. 20 "Administration Rules on Appropriation to General Risk Reserve for Financial Institutions" issued by the Ministry of Finance ("MOF"), the Company and its domestic subsidiaries are required to make appropriation to a general risk reserve effective from 1 July 2012 and the balance of such reserve shall not be less than 1.5% of the entity's risk assets.

**28. Retained earnings**

In accordance with a resolution of the board meeting on 3 March 2017, besides appropriating RMB 48,671,231 of statutory reserve, the Company appropriated RMB 24,335,616 of discretionary reserve, RMB 243,356,157 of general risk reserve and RMB 110,000,000 of cash dividends to ordinary shareholders. The proposal is to be approved by the shareholders' meeting.

Pursuant to the resolution of 2015 Annual General Meeting on 31 March 2016, besides appropriating RMB 51,407,748 of statutory reserve, the Company appropriated RMB 257,854,235 of discretionary reserve and RMB 102,815,496 of general risk reserve. Cash dividends of RMB 102,000,000 were also approved by shareholders.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29. Minority interest**

Minority interest of the Group is as follows:

	31/12/2016	31/12/2015
Guiyang Xiaohe Technology Rural Bank Limited	-	51,913,447

**30. Net interest income**

	Group		Bank	
	2016	2015	2016	2015
Interest income				
Balance with the central bank	83,649,996	89,716,016	83,319,279	89,219,912
Due from banks and other financial institutions	149,914,623	222,855,047	151,262,383	224,559,618
Loans and advances to customers				
-Corporate loans	1,204,820,628	1,304,108,143	1,189,613,908	1,281,296,792
-Retail loans	399,662,403	403,572,929	395,517,792	397,355,665
-Discounted and rediscounted bills	73,919,004	91,203,827	73,919,004	91,203,827
Financial assets purchased under resale agreements	10,966,156	52,644,283	10,966,156	52,644,283
Sub-total	<u>1,922,932,810</u>	<u>2,164,100,245</u>	<u>1,904,598,522</u>	<u>2,136,280,097</u>
Interest expenses				
Due to and placements from banks and other financial institutions	20,984,761	58,843,051	21,674,998	59,292,986
Due to the central bank	2,130,694	8,751,375	2,130,694	8,751,375
Deposits from customers	1,128,551,240	1,204,457,989	1,126,976,902	1,201,682,205
Financial assets sold under repurchase agreements	191,444,065	104,349,498	191,444,065	104,349,498
Debt securities issued	25,710,630	13,518,039	25,710,630	13,518,039
Sub-total	<u>1,368,821,390</u>	<u>1,389,919,952</u>	<u>1,367,937,289</u>	<u>1,387,594,103</u>
Net interest income	<u>554,111,420</u>	<u>774,180,293</u>	<u>536,661,233</u>	<u>748,685,994</u>

The amount of the Group's interest income accrued on impaired loans is not significant.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. Net fee and commission income**

	Group		Bank	
	2016	2015	2016	2015
Fee and commission income				
Settlement and clearing fee income	11,977,816	11,883,840	11,883,522	11,855,261
Agency commissions	4,478,289	4,076,071	4,470,813	4,073,805
Others	1,011,119	357,563	1,009,535	357,083
Sub-total	<u>17,467,224</u>	<u>16,317,474</u>	<u>17,363,870</u>	<u>16,286,149</u>
Fee and commission expense	<u>(8,021,801)</u>	<u>(5,732,501)</u>	<u>(7,982,809)</u>	<u>(5,729,325)</u>
Net fee and commission income	<u>9,445,423</u>	<u>10,584,973</u>	<u>9,381,061</u>	<u>10,556,824</u>

**32. Investment income**

	Group		Bank	
	2016	2015	2016	2015
Trade and disposal of financial assets				
-Financial assets at fair value through profit or loss	(2,993,232)	(7,972,750)	(2,993,232)	(7,972,750)
-Available-for-sale	29,770,709	17,501,611	29,770,709	17,501,611
-Held-to-maturity	49,839,074	-	49,839,074	-
-Investments in subsidiaries	(3,305,867)	-	-	-
Investment income from holding and expiration of financial assets				
-Financial assets at fair value through profit or loss	10,156,012	21,293,732	10,156,012	21,293,732
-Available-for-sale	418,010,846	176,761,992	418,010,846	176,761,992
-Held-to-maturity	280,993,276	275,638,527	280,993,276	275,638,527
Equity investments accounts for at equity method	9,945	164,242	9,945	164,242
Total	<u>782,480,763</u>	<u>483,387,354</u>	<u>785,786,630</u>	<u>483,387,354</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**33. Tax and surcharges**

	Group		Bank	
	2016	2015	2016	2015
Business tax	19,738,767	52,504,942	19,258,286	51,632,360
Other taxes and levies	9,593,659	5,413,980	9,536,002	5,309,271
Total	29,332,426	57,918,922	28,794,288	56,941,631

**34. General and administrative expenses**

	Group		Bank	
	2016	2015	2016	2015
Wages and salaries, bonuses, allowances and subsidies	157,151,617	147,484,409	150,651,017	140,955,202
Welfare and other funds	106,974,312	103,692,456	105,985,248	102,428,090
Office and administrative fees	74,188,614	61,770,070	72,316,875	59,081,330
Advertisement expenses	23,937,221	24,156,424	23,698,387	23,719,640
Depreciation and amortization	33,044,242	31,221,976	30,829,598	28,693,994
Entertainment expenses	7,336,905	7,157,523	6,990,371	6,760,390
Tax	3,724,318	3,496,176	3,491,128	3,228,935
Rental and utilities	6,552,489	3,345,632	6,480,111	3,262,686
Others	14,096,677	11,444,714	14,092,662	11,440,113
Total	427,006,395	393,769,380	414,535,397	379,570,380

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**35. Impairment losses on assets**

	Group		Bank	
	2016	2015	2016	2015
Loans and advances to customers	245,095,923	135,218,767	237,138,530	130,750,062
Foreclosed assets	(5,680,368)	1,428,473	(5,680,368)	1,428,473
Other receivables	1,902,882	18,002	1,902,883	18,002
Total	241,318,437	136,665,242	233,361,045	132,196,537

**36. Income tax expense**

	Group		Bank	
	2016	2015	2016	2015
Current income tax	187,147,131	154,893,403	186,837,535	151,666,561
Deferred income tax	(14,064,998)	3,450,322	(14,064,998)	3,450,322
Total	173,082,133	158,343,725	172,772,537	155,116,883

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	Group		Bank	
	2016	2015	2016	2015
Profit before tax	657,024,858	678,636,334	659,484,851	669,194,362
Tax calculated at an applicable tax rate	164,256,215	169,659,084	164,871,213	167,298,591
Differences from prior year tax clearance	3,471,410	2,479,047	3,471,410	2,479,047
Tax effect of expenses that are not deductible for tax purpose	3,491,897	4,456,810	2,567,303	3,590,461
Tax effect of write-off loan that are not deductible for tax purpose	25,070,537	-	25,070,537	-
Tax effect arising from income not subject to tax	(23,207,926)	(18,251,216)	(23,207,926)	(18,251,216)
Income tax expenses	173,082,133	158,343,725	172,772,537	155,116,883

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**37. Earnings per share**

Basic earnings per share (EPS) is calculated by dividing consolidated net profit for the year attributable to the holders of the Company's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

	2016	2015
Profit for the year attributable to the holders of the Company's ordinary shares	<u>483,679,948</u>	<u>517,247,196</u>
Weighted average number of outstanding ordinary shares	862,500,000	850,000,000
Basic and diluted EPS (RMB)	<u>0.56</u>	<u>0.61</u>

**38. Cash and cash equivalent**

	<u>Group</u>		<u>Bank</u>	
	2016	2015	2016	2015
Cash	172,400,662	204,389,896	172,400,662	202,960,536
Excess reserves with the central bank	970,845,744	936,472,934	970,845,744	934,333,212
Due from banks and other financial institutions with original maturities no more than three months:	<u>2,964,852,775</u>	<u>5,191,832,305</u>	<u>2,964,852,775</u>	<u>5,162,918,070</u>
Total	<u>4,108,099,181</u>	<u>6,332,695,135</u>	<u>4,108,099,181</u>	<u>6,300,211,818</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**III. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**39. Supplementary information of cash flow statements**

Reconciliation from net profit to cash flows from operating activities:

	Group		Bank	
	2016	2015	2016	2015
Net profit	483,942,725	520,292,609	486,712,314	514,077,479
Add: Impairment loss on financial assets	241,318,437	136,665,242	233,361,045	132,196,537
Depreciation and amortization	33,044,242	31,221,976	30,829,598	28,693,994
Losses on disposal of long-term assets	153,248	446,696	153,246	446,696
Gains and losses on change of fair value	37800	(37,800)	37800	(37,800)
Investment income	(782,480,763)	(483,387,354)	(785,786,630)	(483,387,354)
Interest expense from debt securities issued	25,710,630	13,518,039	25,710,630	13,518,039
Changes in deferred tax assets	(14,064,998)	3,450,322	(14,064,998)	3,450,322
Decrease in operating receivables	(2,985,763,791)	2,074,385,222	(3,056,946,469)	2,060,915,834
Increase in operating payables	8,738,943,636	7,055,697,974	8,828,991,185	7,065,382,024
Net cash flows from operating activities	5,740,841,166	9,352,252,926	5,748,997,721	9,335,255,771

The Group was not involved in material non-cash investing and financing activities in 2016 and 2015.

Movement of cash and cash equivalents

	Group		Bank	
	2016	2015	2016	2015
Ending balance	4,108,099,181	6,332,695,135	4,108,099,181	6,300,211,818
Less: Beginning balance	(6,332,695,135)	(3,691,093,515)	(6,300,211,818)	(3,656,898,831)
Net increase/(decrease) in cash and cash equivalents	(2,224,595,954)	2,641,601,620	(2,192,112,637)	2,643,312,987

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**IV. CHANGES OF CONSOLIDATION SCOPE**

**1. Disposal of subsidiary**

**The information about the disposal of subsidiary:**

Name of subsidiary	Consideration from the disposal	Percentages of disposal	Method of disposal	Timing of losing control	Judgement of losing control	Difference between the disposal price and the share of net asset of the subsidiary in consolidate financial statement	Other comprehensive income related to the investment of the subsidiary transferred into profit or loss for the current period
Guiyang Xiaohu Technology Village Bank Limited	51,000,000	100.00%	Transfer of equity	10 Dec 2016	Transfer of the rights and obligations of shareholder	(3,305,867)	-

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**IV. CHANGES OF CONSOLIDATION SCOPE (CONTINUED)**

**1. Disposal of subsidiaries (Continued)**

The profit or loss of the disposal and related cash flow information are listed as following:

Guiyang Xiaohe Technology Village Bank Limited

The profit or loss of the disposal is calculated as following:

	Total
Price of the disposal	51,000,000
Less: shares of net assets of Guiyang Xiaohe Technology Rural Bank Limited in consolidated financial statements	54,305,867
Other comprehensive income transferred into profit or loss of the current period	-
Profit or loss from the disposal	<u>(3,305,867)</u>

As at 31 December 2015, the Company held 51% shares of the Entity. As at 31 December 2016, the Company no longer hold any share, as well, there is no other subsidiary or structured entity should be consolidated.

**V. INTEREST IN OTHER ENTITIES**

**1. Interest in associate**

**1.1 General information of associate**

Name of the investee	Places of incorporation	Registration place	Strategic to the Group	Percentage of shareholding (directly)	Nature of business
Xiuwenjianghai Village Bank Limited	Guiyang	Guiyang	No	15%	Absorb deposit from the public; issue short-term; medium-term and long-term loans; domestic settlement; acceptance and discount of negotiable instruments; placements from banks and other financial institutions; bank card issuance; issue and underwriting government bonds; agent for receipts and payments; and other business approved by the CBRC.

The equity proportion of Xiuwen Jianghai Village Bank Limited held by the Company was 15%. The Company was able to have significant influences on the entity because 2 of its 7 directors were appointed by the Company. The Company recognized the entity as associate accordingly.

**1.2 Key financial information of associates**

The above associate is unlisted company, which has little impact on the Company's financial statements, and therefore no additional information disclosure is required.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**VI. INTEREST IN STRUCTURED ENTITIES**

**1. Structured entities that are not consolidated**

**1.1 Unconsolidated structured entities managed by the Group**

Unconsolidated structured entities established and managed by the Group as an agent are wealth management product vehicles. These wealth management products are designed and issued to specific customers based on analysis of potential target customers, and the proceeds from these products are invested in certain financial market or investment products in accordance with guidelines determined in the contracts. The returns on investment are distributed to investors pursuant to contract terms. As the asset manager, the Group is entitled to management fee. The Group has performed analysis and concluded that its variable return related to these structured entities is not material. As at 31 December 2016, the Company's maximum risk exposure on these wealth management products refer to management fees which are not material.

As at 31 December 2016, unconsolidated wealth management products established and managed by the Group amounted to RMB 203,330,000 (31 December 2015: RMB 239,370,000). The Group did not provide financial support to these unconsolidated wealth management products in 2016.

**1.2 Unconsolidated structured entities invested by the Group**

Unconsolidated structured entities that are invested by the Group were asset management plans and wealth management products issued and managed by independent third parties. There was no obligation and intention for the Group to provide financial support to these structured entities. The Group did not provide financial support to these consolidated structured entities in 2016.

The carrying value of assets of these unconsolidated structured entities and the Group's maximum risk exposure on loss are listed as follows:

As at 31 December 2016	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities	Nature of the benefits held by group
Available-for-sale financial assets				
-Investment plans	30,000,000	30,000,000	Note 1	Investment income
-Wealth management products of other banks	4,470,200,000	4,470,200,000	Note 1	Investment income
-Asset management plans	3,403,330,000	3,403,330,000	Note 1	Investment income

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**VI. INTEREST IN STRUCTURED ENTITIES (CONTINUED)**

**1. Structured entities that are not consolidated (Continued)**

**1.2 Unconsolidated structured entities invested by the Group (Continued)**

As at 31 December 2015	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities	Nature of the benefits held by group
Available-for-sale financial assets				
-Investment plans	30,000,000	30,000,000	Note 1	Investment income
-Wealth management products of other banks	5,316,940,000	5,316,940,000	Note 1	Investment income

Note 1: Total volume of these investment plans issued and managed by independent third parties is not available in the public information.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**VII. CONTINGENCIES AND COMMITMENTS**

**1. Credit commitment**

	31/12/2016	31/12/2015
Bank acceptances	1,252,440,180	1,301,745,123
Letters of guarantee issued	9,730,881	51,623,212
Letters of credit issued	99,875,393	48,625,845
Unutilised credit card limit	214,753,906	183,965,953
Total	<u>1,576,800,360</u>	<u>1,585,960,133</u>

**2. Operating lease commitment**

According to the lease contract terms, the minimum lease payment commitment of the Group is as follows:

	31/12/2016	31/12/2015
Within 1 year	4,942,000	4,599,824
1 to 5 years	7,840,000	7,403,490
Over 5 years	5,524,000	1,713,600
Total	<u>18,306,000</u>	<u>13,716,914</u>

**3. Capital commitment**

As at 31 December 2016, the major capital commitment the Group had approved but not paid amounted to RMB 421,153,037(31 December 2015: RMB 424,815,124).

**4. Legal proceedings**

As at 31 December 2016, there was no legal proceeding against the Company (31 December 2015: Nil).

**VIII. FIDUCIARY BUSINESSES**

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group's balance sheet. As at 31 December 2016, the balances of entrusted loan were RMB 2,316,147,279 (31 December 2015: RMB 1,478,840,000).

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**IX. RELATED PARTIES**

**1. Major related parties**

The related parties of the Company mainly include its subsidiaries, associate, the major shareholders who hold 5% or more ordinary shares of the Company, key management personnel of the Company (including directors, supervisors and senior management personnel) and their close family members, and the companies that are controlled, or under common control of, or significant influenced by these key management personnel and their close family members.

**2. Major shareholders holding more than 5% shares of the Company**

As at 31 December 2016, major shareholders holding more than 5% ordinary shares of the Company are as follows:

	<u>Percentage</u>	<u>Major business</u>
Jiangsu Suzhong Construction Group Co.,	5.000%	Manufacturing and
Jiangsu Zhongzhou Real Estate Limited Company	5.000%	Real estate

As at 31 December 2015, major shareholders holding more than 5% ordinary shares of the Company are as follows:

	<u>Percentage</u>	<u>Major business</u>
Jiangsu Suzhong Construction Group Co., LTD	5.882%	Manufacturing and construction
Jiangsu Zhongzhou Real Estate Limited Company	5.882%	Real estate

**3. Subsidiaries**

For general information of the Company's subsidiaries, please refer to Note IV: Changes of consolidation scope.

**4. Associates**

For general information of associates, please refer to Note V 1 :Interest in associate.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**IX. RELATED PARTIES (CONTINUED)**

**5. Transactions and balances with related parties**

The major transactions between the Group and its related parties are loans and deposits. These transactions are conducted and priced under the normal commercial terms and business procedures as if they were conducted with independent third parties. The amount of transactions with related parties is not significant to the total volume of each type of the Group's business.

**(1) Loans and advances to customers**

	31 December	
	2016	2015
Jiangsu Suzhong Construction Group Co., LTD	100,000,000	-
Companies with significant influence by key management personnel	1,310,445,900	987,163,574
Total	<u>1,410,445,900</u>	<u>987,163,574</u>
	2016	2015
Interest income	<u>68,059,258</u>	<u>73,437,541</u>

**(2) Deposits from customers**

	31 December	
	2016	2015
Jiangsu Suzhong Construction Group Co., LTD	14,536,319	60,026,840
Jiangsu Zhongzhou Real Estate Limited Company	908,435	634,911
Companies with significant influence by key management personnel	63,923,308	89,556,269
Total	<u>79,368,062</u>	<u>150,218,020</u>
	2016	2015
Interest expense	<u>537,084</u>	<u>425,142</u>

**(3) Due to banks and other financial institutions**

	31 December	
	2016	2015
Associates		
Xuwen Jianghai Village Bank Limited	20,000,000	20,000,000
Total	<u>20,000,000</u>	<u>20,000,000</u>
	2016	2015
Interest expense	<u>98,833</u>	<u>143,167</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**IX. RELATED PARTIES (CONTINUED)**

**5. Transactions and balances with related parties (Continued)**

**(4) Due from and placements with banks and other financial institutions**

	31 December	
	2016	2015
Associates		
Xiwen Jianghai Village Bank Limited	35,000,000	35,000,000
Total	<u>35,000,000</u>	<u>35,000,000</u>

	2016	2015
Interest income	<u>1,281,119</u>	<u>1,372,764</u>

**(5) Bank acceptances**

	31 December	
	2016	2015
Companies with significant influence by key management personnel	45,470,632	95,914,000
Total	<u>45,470,632</u>	<u>95,914,000</u>

**(6) Discounted bills**

	31 December	
	2016	2015
Companies with significant influence by key management personnel	507,000	2,065,460
Total	<u>507,000</u>	<u>2,065,460</u>

**(7) Letters of credit issued**

	31 December	
	2016	2015
Companies with significant influence by key management personnel	50,549,485	17,503,648
Total	<u>50,549,485</u>	<u>17,503,648</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**IX. RELATED PARTIES (CONTINUED)**

**5. Transactions and balances with related parties (Continued)**

**(8) Commission income from related parties**

	2016	2015
Jiangsu Shushing Construction Group Co., LTD	805	1,060
Jiangsu Zhangzhou Real Estate Limited Company	20	27
Companies with significant influence by key management personnel	<u>77,812</u>	<u>128,746</u>
Total	<u>78,637</u>	<u>129,833</u>

**(9) Compensation of key management personnel**

Transactions between the Group and its key management personnel are conducted under normal commercial terms. During 2015 and 2016, individual and aggregated amount of transactions with key management personnel are not significant.

The aggregated compensations of Company's directors, supervisors and senior management personnel for 2016 were RMB 8.87 million (2015: RMB 8.46 million).

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT**

The Group exposes to a variety of financial risks. The Group analyses, evaluates, accepts and manages some degree of risks or risk portfolios. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse impact on the Group's financial performance.

The Group designs a series of financial risk management policies to identify and analyse these risks, and has set appropriate risk limits and control procedures to monitor the risks and limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes currency risk and interest rate risk.

The Board of Directors of the Company is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Company designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, related departments of the head office are responsible for their implementation.

**1. Credit risk**

Credit risk is the risk that a customer or counterparty may be failing or unwilling to discharge an obligation or commitment to the Group resulting in a financial loss to the Group.

The Group has established relevant mechanism, and set limit for individual borrower's or groups or industry's tolerable credit risk. The Group regularly monitors and reviews this credit risk limit.

The Group conducts credit evaluation before granting facilities to specific customer, and regularly examines the credit limit granted. The approaches of credit risk management include obtaining collateral and guarantee. For off-balance sheet credit commitments, the Group generally obtains guarantee deposits to mitigate the credit risk.

**(1) Credit risk measurement**

**(i) Loans**

The Group has established a five-grade classification system to measure and manage the credit quality of its loans and advances to corporate and retail customers. Such classification system is based on "Guideline for Credit Risk Classification" issued by CBRC. The Group's own system and the Guideline require the Group to classify its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**1. Credit risk (Continued)**

(1) Credit risk measurement (Continued)

(i) Loans (Continued)

The core definition of the credit asset classification is as follows:

Pass	loans for which borrowers can fulfil the terms of the contracts, and there is no reason to believe their ability to repay principal or interest of loans on a timely basis is in doubt.
Special Mention	loans for which borrowers are able to service the loans currently, although there exist some negative factors which may affect the borrower to repay the loans on time.
Substandard	loans for which borrowers' ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Certain losses may be incurred by the Group even when guarantees are executed
Doubtful	loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed
Loss	principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures

(ii) Bonds

The Group manages the credit risk exposure of bonds through controlling the investment scale and issuer's credit rating and establishing post lending management standards. Treasury Operation Department is responsible for the capital asset risk assessment and bonds stop loss operation, Risk Management Department is responsible for the daily bond risk monitoring and evaluation. Held-to-maturity bonds are assessed quarterly, available-for-sale bonds and trading bonds investment are assessed weekly. Within the first working week in each quarter, a written report is formed to analyse the Group's overall risk profiles of all bond assets.

(iii) Wealth management products of other banks and Asset management plans

Before purchasing the wealth management products of other banks and asset management plans, the Group assesses the scope of investment targets, and then keeps the investment within inter-bank credit limits. During the duration period, Financial Marketing Department is responsible for monitoring the investment assets, tracking the operation and market condition of the investments, urges issuers to provide evaluation reports regularly and makes risk assessment and analysis.

(iv) Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

(v) Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters to guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. Financial risk management (Continued)**

**1. Credit risk (Continued)**

(2) Credit risk mitigation procedures

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Collateral	Maximum loan-to-value ratio
Time deposit	90%
Commercial property and plant	60%
Residential property	60%
Land use right	60%

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

Except loans, collateral and guarantee of other financial assets are determined by nature of financial assets. For example, for financial assets purchased under resale agreements, the group could obtain these financial assets when creditors default.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**1. Credit risk (Continued)**

- (3) Maximum exposure to credit risk without considering collateral or other credit enhancements (Note: The Group information as at 31 December 2016 disclosed in Note X was the same as the Company.)

	31/12/2016	31/12/2015
Credit risk exposure related to balance sheet items:		
Deposits with the central bank	6,058,564,986	5,648,910,599
Due from banks and other financial institutions	4,514,852,775	6,261,872,305
Derivative financial assets	-	37,800
Financial assets purchased under resale agreements	152,000,000	-
Interest receivable	391,124,540	266,032,793
Loans and advances to customers	26,081,197,617	24,354,792,413
Available-for-sale financial assets	22,056,789,079	7,244,196,748
Held-to-maturity investments	-	6,068,696,522
Other financial assets	4,539,339	5,528,709
Sub-total	<u>59,259,068,336</u>	<u>49,850,067,889</u>
Credit risk exposure related to off-balance sheet items:		
Bank acceptance notes	1,252,440,180	1,301,745,123
Letter of guarantee issued	9,730,881	51,623,212
Letter of credit issued	99,875,393	48,625,845
Credit cards	214,753,906	183,965,953
Others	-	-
Sub-total	<u>1,576,800,360</u>	<u>1,585,960,133</u>
Total	<u>60,835,868,696</u>	<u>51,436,028,022</u>

The table above represents the maximum credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**1. Credit risk (Continued)**

- (4) Due from banks and other financial institutions and financial assets purchased under resale agreements

All those assets are neither past due nor impaired. Credit risk of those assets can be analyzed by type of counterparty as follows:

	31/12/2016	31/12/2015
Domestic commercial banks	4,522,486,487	6,233,944,614
Overseas commercial banks	144,366,288	27,927,691
	<u>4,666,852,775</u>	<u>6,261,872,305</u>

- (5) Loans and advances to customers

	31/12/2016	31/12/2015
Neither past due nor impaired	26,417,193,037	24,873,298,646
Past due but not impaired	143,344,056	17,448,194
Impaired	402,326,915	281,363,717
Total	<u>26,962,864,008</u>	<u>25,172,110,557</u>
Less: Provision	(881,666,391)	(817,318,144)
Net	<u>26,081,197,617</u>	<u>24,354,792,413</u>

- (i) Neither past due nor impaired

The Group classifies loan assets according to related regulations issued by the CBRC. Loans and advances neither past due nor impaired are further analyzed as follows:

	Corporate loans	Retail loans	Total
31/12/2016			
Pass	19,653,474,369	5,962,842,524	25,616,316,893
Special mention	705,824,985	95,051,159	800,876,144
	<u>20,359,299,354</u>	<u>6,057,893,683</u>	<u>26,417,193,037</u>

	Corporate loans	Retail loans	Total
31/12/2015			
Pass	18,419,010,362	5,526,534,398	23,945,544,760
Special mention	833,395,050	94,358,836	927,753,886
	<u>19,252,405,412</u>	<u>5,620,893,234</u>	<u>24,873,298,646</u>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**1. Credit risk (Continued)**

(5) Loans and advances to customers (Continued)

(ii) Past due but not impaired

	31/12/2016				Total
	Within 30 days (including 30 days)	30 to 60 years (including 60 days)	60 to 90 years (including 90 days)	Over 90 days	
Corporate loans	42,395,000	69,367,256	23,560,000	-	135,322,256
Retail loans	2,521,438	4,668,649	831,713	-	8,021,800
	<u>44,916,438</u>	<u>74,035,905</u>	<u>24,391,713</u>	<u>-</u>	<u>143,344,056</u>

  

	31/12/2015				Total
	Within 30 days (including 30 days)	30 to 60 years (including 60 days)	60 to 90 years (including 90 days)	Over 90 days	
Corporate loans	11,136,019	-	3,000,000	-	14,136,019
Retail loans	467,942	2,058,092	786,141	-	3,312,175
	<u>11,603,961</u>	<u>2,058,092</u>	<u>3,786,141</u>	<u>-</u>	<u>17,448,194</u>

The Group is of the view that these past due loans can be recovered from the operation income of borrowers, the payment from guarantors or disposal of collateral, are therefore not impaired.

As at 31 December 2016, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB 124,538,180 (31 December 2015: RMB 2,455,980). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB 4,612,167 (31 December 2015: Nil).

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions. The Group will consider the Fair value of collateral when assessing the impairment of this kind of loan.

(iii) Impaired loans

	31/12/2016	31/12/2015
Corporate loans	322,221,212	230,623,345
Retail loans	80,105,703	50,740,372
	<u>402,326,915</u>	<u>281,363,717</u>

As at 31 December 2016, the fair value of collateral for corporate loans that were impaired amounted to RMB 194,086,284 (31 December 2015: RMB 198,950,496). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB 39,516,510 (31 December 2015: RMB 17,549,295).

(iv) Renegotiated loans and advances

Renegotiated loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. At 31 December 2016, carrying value of the renegotiated loans held by the Group amounted to RMB 262,138,375 (31 December 2015: RMB 234,802,538).

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**1. Credit risk (Continued)**

(6) Investment securities

The table below analyses the Group's investment recognized by the central bank

	Available-for-sale financial assets	Held-to-maturity investments	Total
31 December 2016			
Medium or long term:			
AAA	686,871,444	-	686,871,444
AA- to AA+	256,861,864	-	256,861,864
Unrated:			
Government bonds	2,395,469,440	-	2,395,469,440
Bonds issued by policy banks	8,133,827,480	-	8,133,827,480
Bonds issued by local municipal governments	150,091,100	-	150,091,100
Other financial bonds	132,835,740	-	132,835,740
Deposit certificates issued by other banks	2,427,302,011	-	2,427,302,011
Wealth management products and Asset management plans (Note 1)	7,873,530,000	-	7,873,530,000
	<u>22,056,789,079</u>	<u>-</u>	<u>22,056,789,079</u>
	Available-for-sale financial assets	Held-to-maturity investments	Total
31 December 2015			
Medium or long term:			
AAA	256,950,948	906,491,022	1,163,441,970
AA- to AA+	40,366,800	255,856,400	296,223,200
Unrated:			
Government bonds	656,943,900	1,750,682,700	2,407,626,600
Bonds issued by policy banks	942,747,200	3,106,532,200	4,049,279,400
Bonds issued by local municipal governments	-	49,134,200	49,134,200
Financial bonds	30,247,900	-	30,247,900
Wealth management products (Note 1)	5,316,940,000	-	5,316,940,000
	<u>7,244,196,748</u>	<u>6,068,696,522</u>	<u>13,312,893,270</u>

Note1: The underlying assets are mainly bonds with grading above AA in inter-bank bond market.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**2. Market risk**

Market risk is the risk of loss arising from on and off-balance sheet businesses from adverse movements in market prices.

Market Risk Management Department establishes unified market risk management policies and systems under the overall framework of consolidated risk management, and supervises the implementation of market risk management policies and systems. Treasury Trading Department is responsible for RMB and foreign currency investment portfolio management of the Head Office, engages in proprietary trading and trading for customers, and implemented relevant market risk management policies and systems. Audit Department is responsible for performing independent audit work on the reliability and effectiveness of all parts of market risk management system on a regular basis.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X FINANCIAL RISK MANAGEMENT (CONTINUED)**

**2. Market risk (Continued)**

(1) Currency risk

The Company mainly operates in the PRC and its main business activities are conducted in the PRC. Majority of its foreign currency business are conducted in USD.

The table below summarizes the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by original currency :

	31/12/2016			Total Amount in RMB
	RMB	USD Amount in RMB	Others Amount in RMB	
Cash and balances with the central bank	6,229,033,000	1,932,648	-	6,230,965,648
Due from banks and other financial institutions	4,365,829,822	147,932,952	1,090,001	4,514,852,775
Financial assets purchased under resale agreements	152,000,000	-	-	152,000,000
Interest receivables	391,066,283	58,257	-	391,124,540
Loans and advances to customers	26,069,030,119	12,167,498	-	26,081,197,617
Available-for-sale financial assets	22,284,802,127	-	-	22,284,802,127
Other financial assets	4,539,339	-	-	4,539,339
<b>Total financial assets</b>	<b>59,496,300,690</b>	<b>162,091,355</b>	<b>1,090,001</b>	<b>59,659,482,046</b>
Due to the central bank	50,000,000	-	-	50,000,000
Due to banks and financial institutions	1,794,356,158	-	-	1,794,356,158
Placements from banks and financial institutions	500,000,000	-	-	500,000,000
Financial assets sold under repurchase agreements	8,467,765,204	-	-	8,467,765,204
Deposits from customers	42,711,317,458	33,019,758	429,269	42,744,766,485
Interest payable	1,654,809,669	2,428	-	1,654,812,097
Other financial liabilities	58,338,797	-	-	58,338,797
<b>Total financial Liabilities</b>	<b>55,236,587,286</b>	<b>33,022,186</b>	<b>429,269</b>	<b>55,270,038,741</b>
<b>Net position of financial instruments</b>	<b>4,259,713,404</b>	<b>129,069,169</b>	<b>660,732</b>	<b>4,389,443,305</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**2. Market risk (Continued)**

(1) Currency risk (Continued)

	31/12/2015			
	RMB	USD Amount in RMB	Others Amount in RMB	Total Amount in RMB
Cash and balances with the central bank	5,852,404,378	896,117	-	5,853,300,495
Due from banks and other financial institutions	6,206,437,830	54,562,475	872,000	6,261,872,305
Derivative financial assets	37,800	-	-	37,800
Interest receivables	265,838,176	194,617	-	266,032,793
Loans and advances to customers	24,313,141,943	41,650,470	-	24,354,792,413
Available-for-sale financial assets	7,462,221,760	-	-	7,462,221,760
Investment securities - held-to-maturity	6,068,696,522	-	-	6,068,696,522
Other financial assets	5,528,709	-	-	5,528,709
<b>Total financial assets</b>	<b>50,174,307,118</b>	<b>97,303,679</b>	<b>872,000</b>	<b>50,272,482,797</b>
Due to the central bank	450,000,000	-	-	450,000,000
Due to banks and financial institutions	1,334,138,950	-	-	1,334,138,950
Placements from banks and financial institutions	400,000,000	32,468,000	-	432,468,000
Financial assets sold under repurchase agreements	4,992,359,572	-	-	4,992,359,572
Deposits from customers	37,689,038,165	33,147,935	875,912	37,723,062,012
Interest payable	1,461,734,635	522	-	1,461,735,157
Bonds issued	211,900,000	-	-	211,900,000
Other financial liabilities	83,827,736	-	-	83,827,736
<b>Total financial Liabilities</b>	<b>46,622,999,058</b>	<b>65,616,457</b>	<b>875,912</b>	<b>46,689,491,427</b>
<b>Net position of financial instruments</b>	<b>3,551,308,060</b>	<b>31,687,222</b>	<b>(3,912)</b>	<b>3,582,991,370</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**2. Market risk (Continued)**

(1) Currency risk (Continued)

The Group measures the possible effect on net profit arising from USD foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis on the financial reporting date.

	31/12/2016		31/12/2015	
	Exchange rate fluctuation %		Exchange rate fluctuation %	
Increase/(decrease) of net profit	-1%	1%	-1%	1%
USD against RMB	(972,974)	972,974	(237,654)	237,654

The sensitivity analysis was based on assets and liabilities at year end. The assumption for calculation is shown as below: sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) of USD against RMB on the financial reporting date.

The actual exchange gain or loss may differ from the sensitivity analysis result due to these assumptions.

(2) Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in factors such as interest rates, term structure, etc.

In accordance with provisions implemented by the central bank ("PBOC") on 26 August 2015, there is no upper limit for interest rate of deposit over one year (excluding one year), and the upper limit of current deposit and deposit within one year is 150% of benchmark interest rate; and since 24 October 2015, the upper limit of interest rate of deposit from commercial banks and rural cooperative financial institution had been removed. PBOC had also removed the bottom limit (i.e. 70% of benchmark) for loans (excluding mortgage loans) on 20 July 2013. The Group determines interest rate of loan to customers independently.

The table below summarizes the Group's exposures to interest rate risk. The table presents the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**2. Market risk (Continued)**

(2) Interest rate risk (Continued)

	31/12/2016						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
<b>Assets</b>							
Cash and balances with the central bank	6,056,809,926	-	-	-	-	174,155,722	6,230,965,648
Due from banks and other financial institutions	1,402,213,639	1,562,639,136	1,550,000,000	-	-	-	4,514,852,775
Financial assets purchased under resale agreements	152,000,000	-	-	-	-	-	152,000,000
Interest receivable	-	-	-	-	-	391,124,540	391,124,540
Loans and advances to customers	3,990,098,121	3,267,005,681	17,191,577,966	794,293,103	838,222,746	-	26,081,197,617
Available-for-sale financial assets	514,755,899	1,460,798,749	10,076,915,952	6,936,628,804	3,067,689,675	228,013,048	22,284,802,127
Other financial assets	-	-	-	-	-	4,539,339	4,539,339
<b>Total financial assets</b>	<b>12,115,877,585</b>	<b>6,290,443,566</b>	<b>28,818,493,918</b>	<b>7,730,921,907</b>	<b>3,905,912,421</b>	<b>797,832,649</b>	<b>59,659,482,046</b>
<b>Liabilities</b>							
Due to the central bank	-	50,000,000	-	-	-	-	50,000,000
Due to banks and other financial institutions	891,406,158	551,660,000	351,290,000	-	-	-	1,794,356,158
Placements from banks and other financial institutions	300,000,000	200,000,000	-	-	-	-	500,000,000
Financial assets sold under repurchase agreements	6,986,245,842	1,451,608,188	29,911,174	-	-	-	8,467,765,204
Deposits from customers	1,448,743,069	1,145,733,367	17,390,428,346	22,560,037,110	199,824,593	-	42,744,766,485
Interest payable	-	-	-	-	-	1,654,812,097	1,654,812,097
Other financial liabilities	-	-	-	-	-	58,338,797	58,338,797
<b>Total financial liabilities</b>	<b>9,626,395,069</b>	<b>3,399,001,555</b>	<b>17,771,629,520</b>	<b>22,560,037,110</b>	<b>199,824,593</b>	<b>1,713,150,894</b>	<b>55,270,038,741</b>
Interest rate risk gap	2,489,482,516	2,891,442,011	11,046,864,398	(14,829,115,203)	3,706,087,828	(915,318,245)	4,389,443,305

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**2. Market risk (Continued)**

(2) Interest rate risk (Continued)

	31/12/2015					Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
<b>Assets</b>							
Cash and balances with the central bank	5,648,014,482	-	-	-	-	205,286,013	5,853,300,495
Due from banks and other financial institutions	3,991,872,305	1,200,000,000	1,070,000,000	-	-	-	6,261,872,305
Derivative financial assets	-	-	-	-	-	37,800	37,800
Interest receivable	-	-	-	-	-	266,032,793	266,032,793
Loans and advances to customers	5,739,766,995	3,602,238,914	14,358,201,584	459,009,257	195,575,663	-	24,354,792,413
Available-for-sale financial assets	454,049,448	1,026,257,900	4,175,159,500	1,134,299,000	484,430,900	188,025,012	7,462,221,760
Investment securities - held-to-maturity	-	172,937,422	800,495,300	4,356,447,400	738,816,400	-	6,068,696,522
Other financial assets	-	-	-	-	-	5,528,709	5,528,709
<b>Total financial assets</b>	<b>15,833,703,230</b>	<b>6,001,434,236</b>	<b>20,403,856,384</b>	<b>5,949,755,657</b>	<b>1,418,822,963</b>	<b>664,910,327</b>	<b>50,272,482,797</b>
<b>Liabilities</b>							
Due to the central bank	200,000,000	150,000,000	100,000,000	-	-	-	450,000,000
Due to banks and other financial institutions	937,328,950	286,410,000	110,400,000	-	-	-	1,334,138,950
Placements from banks and other financial institutions	400,000,000	32,468,000	-	-	-	-	432,468,000
Financial assets sold under repurchase agreements	4,970,822,030	21,537,542	-	-	-	-	4,992,359,572
Deposits from customers	10,085,270,031	6,007,509,120	8,797,684,472	12,832,595,789	2,600	-	37,723,062,012
Interest payable	-	-	-	-	-	1,461,735,157	1,461,735,157
Debt securities issued	-	-	211,900,000	-	-	-	211,900,000
Other financial liabilities	-	-	-	-	-	83,827,736	83,827,736
<b>Total financial liabilities</b>	<b>16,593,421,011</b>	<b>6,497,924,662</b>	<b>9,219,984,472</b>	<b>12,832,595,789</b>	<b>2,600</b>	<b>1,545,562,893</b>	<b>46,689,491,427</b>
<b>Interest rate risk gap</b>	<b>(759,717,781)</b>	<b>(496,490,426)</b>	<b>11,183,871,912</b>	<b>(6,882,840,132)</b>	<b>1,418,820,363</b>	<b>(880,652,566)</b>	<b>3,582,991,370</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**2. Market risk (Continued)**

(2) Interest rate risk (Continued)

The Group performs sensitivity analysis by measuring the potential impact of a change in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the financial reporting date.

	31/12/2016	
	Interest rate fluctuation %	
	-1%	+1%
(Decreases)/increases in net profit	(103,530,295)	103,530,295
Increase/(decrease) in other comprehensive income	247,673,571	(247,673,571)

  

	31/12/2015	
	Interest rate fluctuation %	
	-1%	+1%
(Decreases)/increases in net profit	(42,252,224)	42,252,224
Increase/(decrease) in other comprehensive income	66,772,517	(62,831,467)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. In the relevant analysis, the fluctuation only covers one year, which reflects the effect on the annualized interest income from re-pricing the assets and liabilities. The assumptions are shown as below:

- Except for current deposits, assets and liabilities are re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with the central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes of assets and liabilities at year end.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the changes in fair value is derived by remeasuring the fair value of financial assets at fair value through profit or loss as a result of changes in interest rate.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3. Liquidity risk**

Liquidity risk is the risk that the Group is unable to obtain adequate funds on time or at a reasonable cost to pay off debts upon maturity or meet other settlement obligations although the Group may have the capability to pay off the debts.

The Group's liquidity risk management is intended to meet the obligations to customers for withdrawal and payment, to achieve the balance between the maturities of assets and liabilities, to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk.

The Group's liquidity risk management system comprises mainly regular and contingent management system which includes 9 components, such as policies and strategies, management framework, regulations, management tool, daily operation, stress test, system construction, risk monitoring, risk report, and drilling.

Risk Management Department is in charge of liquidity risk management, and carries out specific work according to "commercial bank liquidity risk management approach (proposed)". In addition, the Group carries out various liquidity risk management activities such as liquidity forecast, real-time monitoring of liquidity position by each currency, analysis of liquidity gap for on and off-balance sheet position, and early reporting of large disbursement requests etc. The Group also assesses the liquidity risk arising from on and off-balance sheet exposures, actively obtains the external funding and manages the maturities of its assets and liabilities in accordance with the Group's liquidity risk management policy and limit requirement. The objective of these activities is to maintain the appropriate level of liquidity to support the Group's business development. Financial Department calculates liquidity ratio monthly, monitors liquidity risk and sends the results to Risk Management Department and Treasury Operational Department. If the liquidity ratio is lower than 40%, the Company will initiate "Jiangsu Hai'an Rural Commercial Bank Co., Ltd Liquidity Risk Emergency Response Plan" to cope with liquidity risk.

The table below presents the cash flows payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the financial reporting date:

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3. Liquidity risk(Continued)**

**(1) Cash flows of financial assets and liabilities**

	31/12/2016						Total
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
<b>Assets</b>							
Deposits with the central bank	-	1,152,151,406	1,367,231,360	1,433,262,501	2,358,295,307	2,273,433	6,313,214,007
Due from banks and other financial institutions	-	1,267,213,639	1,729,343,679	1,582,620,278	-	-	4,579,177,596
Financial assets purchased under resale agreements	-	-	160,512,000	-	-	-	160,512,000
Loans and advances to customers	149,924,778	-	5,295,436,808	19,279,184,006	1,780,074,622	3,048,940,923	29,553,561,137
Available-for-sale financial assets	-	-	2,084,784,125	10,671,012,398	7,455,130,046	3,382,633,413	23,593,559,982
Other financial assets	-	-	4,539,339	-	-	-	4,539,339
<b>Total financial assets</b>	<b>149,924,778</b>	<b>2,419,365,045</b>	<b>10,641,847,311</b>	<b>32,966,079,183</b>	<b>11,593,499,975</b>	<b>6,433,847,769</b>	<b>64,204,564,061</b>
<b>Liabilities</b>							
Borrowing from the central bank	-	-	-	51,332,361	-	-	51,332,361
Due to banks and other financial institutions	-	52,956,158	1,399,341,266	361,066,184	-	-	1,813,363,608
Placements from banks and other financial institutions	-	-	502,770,411	-	-	-	502,770,411
Financial assets sold under repurchase agreements	-	-	8,469,090,253	30,103,565	-	-	8,499,193,818
Deposits from customers	-	203,330,000	2,406,838,298	17,991,019,020	24,831,390,237	254,933,489	45,687,511,044
Other financial liabilities	-	-	58,338,797	-	-	-	58,338,797
<b>Total financial liabilities</b>	<b>-</b>	<b>256,286,158</b>	<b>12,836,379,025</b>	<b>18,433,521,130</b>	<b>24,831,390,237</b>	<b>254,933,489</b>	<b>56,612,510,039</b>
<b>Liquidity risk</b>	<b>149,924,778</b>	<b>2,163,078,887</b>	<b>(2,194,531,714)</b>	<b>14,532,558,053</b>	<b>(13,237,890,262)</b>	<b>6,178,914,280</b>	<b>7,592,054,022</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3. Liquidity risk(Continued)**

**(1) Cash flows of financial assets and liabilities (Continued)**

	31/12/2015						Total
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
<b>Assets</b>							
Deposits with the central bank	-	1,143,515,108	1,186,212,738	1,370,473,572	2,153,086,707	12,370	5,853,300,495
Due from banks and other financial institutions	-	1,156,872,307	4,058,100,486	1,085,135,861	-	-	6,300,108,654
Loans and advances to customers	219,312,708	-	6,512,795,481	17,827,154,209	1,447,763,926	1,553,785,794	27,560,812,118
Available-for-sale financial assets	-	-	1,505,612,782	4,352,606,814	1,415,038,003	849,635,788	8,122,893,387
Held-to-maturity investments	-	-	191,391,065	943,464,081	5,536,744,511	-	6,671,599,657
Other financial assets	-	-	5,528,709	-	-	-	5,528,709
<b>Total financial assets</b>	<b>219,312,708</b>	<b>2,300,387,415</b>	<b>13,459,641,261</b>	<b>25,578,834,537</b>	<b>10,552,633,147</b>	<b>2,403,433,952</b>	<b>54,514,243,020</b>
<b>Liabilities</b>							
Borrowing from the central bank	-	-	354,668,264	102,522,569	-	-	457,190,833
Due to banks and other financial institutions	-	57,328,950	1,584,225,194	330,691,244	-	-	1,972,245,388
Placements from banks and other financial institutions	-	-	445,150,020	-	-	-	445,150,020
Financial assets sold under repurchase agreements	-	(184,383)	4,994,591,212	-	-	-	4,994,406,829
Deposits from customers	-	8,341,735,701	8,019,512,989	9,183,161,913	14,821,033,416	84,358	40,365,528,377
Debt securities issued	-	-	-	217,490,078	-	-	217,490,078
Other financial liabilities	-	-	83,827,736	-	-	-	83,827,736
<b>Total financial liabilities</b>	<b>-</b>	<b>8,398,880,268</b>	<b>15,481,975,415</b>	<b>9,833,865,804</b>	<b>14,821,033,416</b>	<b>84,358</b>	<b>48,535,839,261</b>
<b>Liquidity risk</b>	<b>219,312,708</b>	<b>(6,098,492,853)</b>	<b>(2,022,334,154)</b>	<b>15,744,968,733</b>	<b>(4,268,400,269)</b>	<b>2,403,349,594</b>	<b>5,978,403,759</b>

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)****3. Liquidity risk(Continued)****(2) Off-balance sheet items**

	Within 1 year	1 to 5 years	Over 5 years	Total
31/12/2016				
Bank bill acceptance	1,252,440,180	-	-	1,252,440,180
Letters to guarantee issued	9,730,881	-	-	9,730,881
Letters of credit issued	99,875,393	-	-	99,875,393
Unutilised credit card limit	214,753,906	-	-	214,753,906
Others	1,576,800,360	-	-	1,576,800,360
	Within 1 year	1 to 5 years	Over 5 years	Total
31/12/2015				
Bank bill acceptance	1,301,745,123	-	-	1,301,745,123
Letters to guarantee issued	51,623,212	-	-	51,623,212
Letters of credit issued	48,625,845	-	-	48,625,845
Unutilised credit card limit	183,965,953	-	-	183,965,953
Others	1,585,960,133	-	-	1,585,960,133

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4. Fair value of financial instruments**

(1) Fair value hierarchy

According to the significance of the lowest inputs used in making the measurements, the fair value hierarchy shall have the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instruments.

Level 2 - Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities for which quotations like yield curve or counterparty credit risk are mainly available from China Bond.

Level 3 - Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components

(2) Financial instruments not measured at fair value

The financial assets and financial liabilities not measured at fair value in the financial statements include balances with the central bank, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers, investment securities classified as held-to-maturity, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The table below summarizes the carrying amount and relevant fair value of investment securities classified as held-to-maturity and debt securities issued of the Group as at balance sheet date.

	31/12/2015				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Investment securities - held-to-maturity	6,068,696,522	-	6,244,229,600	-	6,244,229,600
Financial liabilities:					
Debt securities issued	211,900,000	-	213,077,614	-	213,077,614

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4. Fair value of financial instruments (Continued)**

(2) Financial instruments not measured at fair value (Continued)

(i) Investment securities held-to-maturity

Held-to-maturity securities are classified into level 1 when its fair value is based on quoted market price. Held-to-maturity securities are classified into level 3 if its market information is not available and fair values of are calculated using discounted cash flow model. Held-to-maturity securities are classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

(ii) Debt securities

The fair value of bonds issued is based on quoted market price. For those bonds whose quoted market price is not available, their fair value is calculated using discounted cash flow and the effective interest rate of bonds with similar maturity.

Except for the financial assets and liabilities listed above, fair values of financial assets and financial liabilities not measured at fair value are calculated using discounted cash flow model. Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value is approximate to the fair value.

(3) Financial instruments measured at fair value

Fair value hierarchy of financial instruments measured at fair value of the Group is listed as below:

	Level 1	Level 2	Level 3	Total
31 December 2016				
Available-for-sale financial assets				
- Bonds	-	11,755,957,068	-	11,755,957,068
- Deposit certificates issued by other financial institutions	-	2,427,302,011	-	2,427,302,011
- Equity investment	-	-	197,413,048	197,413,048
- Investment plan	-	-	30,000,000	30,000,000
- Wealth management products of other banks and Asset management plans	-	-	7,873,530,000	7,873,530,000
Total financial assets	-	14,183,259,079	8,100,943,048	22,284,202,127
31 December 2015				
Derivative financial assets	-	37,800	-	37,800
Available-for-sale financial assets				
- Bonds	-	1,927,256,748	-	1,927,256,748
- Equity investment	-	-	187,425,012	187,425,012
- Investment plan	-	-	30,000,000	30,000,000
- Wealth management products of other banks	-	-	5,316,940,000	5,316,940,000
Total financial assets	-	1,927,294,548	5,534,365,012	7,461,659,560

The Group had no financial instruments whose fair value hierarchy are categorized in Level 1.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4. Fair value of financial instruments (Continued)**

(3) Financial instruments measured at fair value (Continued)

Movements of the Group's financial assets classified as level 3 are listed below:

	Available-for-sale financial assets				Total
	Available-for-sale equity instruments	Investment plan	Wealth management products and Asset management plans		
1 January 2016	187,425,012	30,000,000	5,316,940,000		5,534,365,012
Purchases	-	-	48,189,410,000		48,189,410,000
Expired	-	-	(45,632,820,000)		(45,632,820,000)
Changes in gains or losses recognized in other comprehensive income	9,988,036	-	-		9,988,036
31 December 2016	197,413,048	30,000,000	7,873,530,000		8,100,943,048

	Available-for-sale financial assets				Total
	Available-for-sale equity instruments	Investment plan	Wealth management products of other banks		
1 January 2015	150,498,685	30,000,000	-		180,498,685
Purchases	9,000,000	-	25,626,460,000		25,635,460,000
Expired	-	-	(20,309,520,000)		(20,309,520,000)
Changes in gains or losses recognized in other comprehensive income	27,926,327	-	-		27,926,327
31 December 2015	187,425,012	30,000,000	5,316,940,000		5,534,365,012

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows:

Group	Fair value	Valuation technique	Unobservable inputs		
			Name	Scope/weighted average	Relationship with fair value
31 December 2016					
Available-for-sale financial assets					
Available-for-sale equity instruments	197,413,048	Asset-Based approach	Note (1)	Note (1)	Note (1)
Wealth management products and Asset management plans	7,873,530,000	Income method	Discount rate	3.5%-5%	Reverse
Investment plan	30,000,000	Asset-Based approach	Note (2)	Note (2)	Note (2)

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4. Fair value of financial instruments (Continued)**

(3) Financial instruments measured at fair value (Continued)

Group	Fair value	Valuation technique	Unobservable inputs		
			Name	Scope/ weighted average	Relationship with fair value
31 December 2015					
Available-for-sale financial assets					
Available-for-sale equity instruments	187,425,012	Cost method	Note (1)	Note (1)	Note (1)
Wealth management products	5,316,940,000	Income method	Discount rate	4.42%	Reverse
Investment plan	30,000,000	Net asset	Note (2)	Note (2)	Note (2)

Note 1: The available for sale equity instruments were the Group's equity investments to Lianshui Rural Commercial Bank and Rudong Rural Commercial Bank. Fair value of these is equal to the Group's proportion of invested entities' net assets.

Note 2: The fair value of the investment plan is equal to the Group's proportion of the investment's net value as at year end.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**5. Capital management**

The Group adopts the capital management approaches that can adequately respond to the inherent risks associated with the Group's business and manages capital adequacy in accordance with regulatory requirements. The primary objectives of the Group's capital management are to maintain capital adequacy ratio to support its businesses and to maximize shareholders' value. The Group actively adjusts the capital structure in response to the changing economic environment and risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend policy and issuance of additional capital instruments such as the increase of paid-in capital and issue the new subordinated bonds

The Group calculates the capital adequacy ratio in accordance with Provisional Administrative Rule on Capital Management of Commercial Banks issued by the CBRC in June 2012. According to regulation, the Group adopts risk weighting approach, standardised approach and basic indicator approach to measure Credit Risk weighted Assets, Market Risk weighted Assets and Operational Risk weighted Assets respectively in the current reporting period.

Since the Group calculates the capital adequacy ratio in accordance with the above latest rules from the current reporting period, the operational risk is taken into the scope of the capital adequacy ratio calculation, adjustments on rules of the definition of capital, the risk weight of on and off-balance sheet assets and credit risk conversion coefficient on off-balance sheet assets are made. The changes of the rules make impacts on the capital adequacy ratio of the Group to some degree.

	31/12/2016	31/12/2015
Core tier 1 capital – net	4,685,680,800	3,896,869,234
Tier 1 capital - net	4,685,680,800	3,896,869,234
Capital - net	5,122,936,800	4,283,835,024
Total risk weighted assets	34,912,778,200	30,614,626,900
Core tier 1 capital adequacy ratios – net	12.37%	12.19%
Tier 1 capital adequacy ratios - net	12.37%	12.19%
Capital adequacy ratios - net	13.52%	13.35%

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

**X. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**6. Other compliance risk management**

The Group's anti-money laundering ("AML") policies were established according to "PRC Anti-money Laundering Law" and "Financial institutions Anti-money Laundering Regulation" and other relevant regulatory policies. The Group has established a team to lead and coordinate the Group's AML work, and to report AML tracking and completion status to management. The leading team will report to the Board of directors directly if necessary. The Group mainly conducted following measures for AML:

The Group's International Business System integrated Dow Jones information database system which can check and scan various compliance elements. The Group set up the standards of due diligence, checking required documents to verify clients' identities and continuous monitoring based on the principle of know your client ("KYC"). If there is any doubt about clients' identities information, it should be re-identified. In accordance with regulatory requirements, the Group reports AML statistical forms and information to the central bank regularly.

The Compliance Department tailors training plans and organizes trainings for employees on AML regularly. In 2016, AML trainings have been conducted four times, with accumulative 460 participants.

The Group regularly or irregularly supervises and examines branches' AML through business inspections, risk investigations and internal audit programs, etc.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

**XI. SEGMENT REPORTING**

The Group manages the business from both business and geographic perspectives.

From the business perspective, the Group provides services through four main business segments listed as below:

**Corporate banking**

-Services to corporate customers, government authorities and organizations including current deposits, time deposits, pledged deposits, guaranteed wealth managements, loans, trade finance and other credit facilities and foreign currency business.

**Retail banking**

-Services to retail customers including current deposits, time deposits, bankcard deposit, guaranteed wealth managements, loans, credit cards, payments and settlements and foreign currency business.

**Treasury**

-Treasury segment conducts banking business, securities investment, money market and repurchase transactions. The results of this segment include the inter-segment funding income and expenses, resulting from interest bearing assets and liabilities.

**Others**

-Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment, including equity investment and other operating income.

Geographically, according to the Group's current internal organization structure, management requirements, the design of the internal control system, the senior management of the bank analyse the Group's operating conditions based on the different economic regions of the branches. As the Group mainly conducts its business in Hai'an, Nantong, Jiangsu Province, there is no need to disclose segment information based on the location.

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

**XI. SEGMENT REPORTING (CONTINUED)**

Group	2016				
	Corporate banking	Personal banking	Treasury	Others	Total
External interest income	1,168,565,067	394,887,856	359,479,887	-	1,922,932,810
External interest expense	(42,607,929)	(1,032,641,424)	(293,572,037)	-	(1,368,821,390)
Internal net interest income/(expense)	(445,025,652)	718,200,403	(273,174,751)	-	-
<b>Net interest income</b>	680,931,486	80,446,835	(207,266,901)	-	554,111,420
<b>Net fee and commission income</b>	3,193,965	3,216,023	3,023,101	12,334	9,445,423
Internal net interest income/(expense)	-	-	785,786,630	(3,305,867)	782,480,763
- Share of results of associates ventures	-	-	9,945	-	9,945
Gains and losses on change of fair value	-	-	(37,800)	-	(37,800)
Exchange gains	7,395,275	-	-	-	7,395,275
Other operating income	(142,246)	-	486,240	921,103	1,265,097
Tax and surcharges	(14,318,719)	(1,988,145)	(13,009,525)	(16,037)	(29,332,426)
General and administrative expenses	(210,862,336)	(28,622,223)	(187,290,928)	(230,908)	(427,006,395)
Depreciation and amortization	(16,969,296)	(2,128,676)	(13,929,097)	(17,173)	(33,044,242)
Impairment losses on assets	(233,537,569)	(7,780,868)	-	-	(241,318,437)
Other operating expenses	(9,492)	(1,369)	(8,961)	(11)	(19,833)
Net non-operating income and expenditure	1,871,879	(370,521)	(2,424,522)	964,935	41,771
<b>Profit before income tax</b>	234,522,243	44,899,732	379,257,334	(1,654,451)	657,024,858
<b>Capital expenditure</b>	14,152,589	7,041,760	17,861,540	10,279	39,066,168
Bank	31 December 2016				
	Corporate banking	Personal banking	Treasury	Others	Total
<b>Segment assets</b>	21,817,893,155	10,825,160,629	27,396,802,846	15,801,706	60,055,658,336
<b>Deferred tax assets</b>	138,595,607	37,116,439	(5,677,956)	2,626	170,036,716
<b>Total assets</b>	21,956,488,762	10,862,277,068	27,391,124,890	15,804,332	60,225,695,052
<b>Segment liabilities</b>	9,998,627,201	34,513,395,095	10,859,205,341	61,636,045	55,432,863,682
<b>Off-balance sheet credit commitments</b>	1,362,046,454	214,753,906	-	-	1,576,800,360

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

**XI. SEGMENT REPORTING (CONTINUED)**

Group	2015				
	Corporate banking	Personal banking	Treasury	Others	Total
External interest income	1,293,563,506	421,031,211	449,505,528	-	2,164,100,245
External interest expense	(85,686,761)	(1,085,378,442)	(218,854,749)	-	(1,389,919,952)
Internal net interest income/(expense)	(568,857,312)	782,468,890	(213,611,578)	-	-
<b>Net interest income</b>	639,019,433	118,121,659	17,039,201	-	774,180,293
<b>Net fee and commission income</b>	5,944,620	3,880,304	748,081	11,968	10,584,973
Internal net interest income/(expense)	-	-	483,387,354	-	483,387,354
- Share of results of associates ventures	-	-	164,242	-	164,242
Gains and losses on change of fairvalue	-	-	37,800	-	37,800
Exchange gains	3,304,450	-	-	-	3,304,450
Other operating income	(255,980)	-	-	644,470	388,490
Tax and surcharges	(28,552,706)	(5,602,222)	(23,740,007)	(23,987)	(57,918,922)
General and administrative expenses	(198,015,486)	(37,344,165)	(158,249,831)	(159,898)	(393,769,380)
Depreciation and amortization	(16,423,768)	(2,823,069)	(11,963,051)	(12,088)	(31,221,976)
Impairment losses on assets	(126,736,286)	(9,928,956)	-	-	(136,665,242)
Other operating expenses	(1,053,777)	(214,086)	(907,210)	(917)	(2,175,990)
Net non-operating income and expenditure	(371,274)	(851,601)	(3,608,749)	2,114,132	(2,717,492)
<b>Profit before income tax</b>	293,282,994	68,060,933	314,706,639	2,585,768	678,636,334
<b>Capital expenditure</b>	56,119,802	28,256,057	55,811,410	15,601	140,202,870
Group	31 December 2015				
	Corporate banking	Personal banking	Treasury	Others	Total
<b>Segment assets</b>	20,292,266,343	10,217,060,985	20,180,755,498	5,641,146	50,695,723,972
<b>Deferred tax assets</b>	109,365,096	31,984,243	(20,495,904)	491	120,853,926
<b>Total assets</b>	20,401,631,439	10,249,045,228	20,160,259,594	5,641,637	50,816,577,898
<b>Segment liabilities</b>	7,773,009,465	31,940,053,257	7,050,400,365	86,060,867	46,849,523,954
<b>Off-balance sheet credit commitments</b>	1,401,994,180	183,965,953	-	-	1,585,960,133

**JIANGSU HAI'AN RURAL COMMERCIAL BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

**XII. ASSETS PLEDGED**

Parts of Group's assets are pledged as collateral or underlying assets for repurchase agreement and assets backed securities.

	31/12/2016	31/12/2015
Discount and rediscount bills	103,343,827	91,412,721
Available-for-sale financial assets	8,564,288,200	1,123,894,100
Held-to-maturity investments	-	4,198,841,900
Loan to customers	-	311,900,000
Total	<u>8,667,632,027</u>	<u>5,726,048,721</u>

**XIII. EVENTS AFTER THE REPORTING DATE**

As of 3 Mar 2017, there was no significant subsequent event that requires additional disclosure in the financial statements.