



徽商银行股份有限公司

Huishang Bank Corporation Limited

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

Stock Code : 3698



2017
Annual Report

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Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meaning set out below.

“Bank” or “Huishang Bank”	Huishang Bank Corporation Limited, including its subsidiaries and branches
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“CBRC Anhui Office”	the China Banking Regulatory Commission Anhui Office (中國銀監會安徽監管局)
“Domestic Shares”	the ordinary shares issued by the Bank in the PRC with a nominal value of RMB1.00 per share
“H Shares”	the ordinary shares issued by the Bank to overseas investors, which are denominated in RMB, subscribed for in Hong Kong Dollars and listed on the Main Board of the Hong Kong Stock Exchange
“Overseas Preference Shares”	44,400,000 non-cumulative perpetual overseas preference shares issued by the Bank and listed on the Hong Kong Stock Exchange with a nominal value of RMB100 per share
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“H Share Listing”	the listing of H Shares of the Bank on the Main Board of the Hong Kong Stock Exchange
“H Share Listing Date”	the date on which dealings in the H Shares of the Bank first commenced on the Hong Kong Stock Exchange, i.e. 12 November 2013
“Latest Practicable Date”	the latest practicable date for the purpose of ascertaining certain information contained in this annual report, i.e. 23 March 2018
“Non-green Industries”	the heavily-polluting, highly energy-consuming and over-capacity industries
“Three Dimensional Rural Issues”	abbreviation for issues related to agriculture, rural areas and farmers
“PBOC”	the People’s Bank of China
“China” or “PRC”	the People’s Republic of China
“Reporting Period”	the year of 2017 (1 January 2017 to 31 December 2017)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Yuan” or “RMB”	Renminbi, the lawful currency of China. Unless otherwise specified herein, the currency used in this annual report shall be Renminbi
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$” or “U.S. Dollars”	U.S. dollars, the lawful currency of the United States

Chapter I Corporate Information

1.1 CORPORATE INFORMATION

- 1.1.1 Statutory Chinese name: 徽商銀行股份有限公司¹
Statutory English name: Huishang Bank Corporation Limited
- 1.1.2 Statutory representative: Li Hongming²
Authorized representatives: Wu Xuemin, Ngai Wai Fung
Secretary to the Board of Directors: Yi Feng
Company secretary: Ngai Wai Fung
- 1.1.3 Registered and business office address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
Tel: +86-551-62667787
Fax: +86-551-62667787
Postal code: 230001
Bank's website: www.hsbank.com.cn
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- 1.1.6 Domestic auditor: Ernst & Young Hua Ming LLP (Special General Partnership)
Office address: Room 01-12, Level 17, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Avenue, Dong Cheng District, Beijing, the PRC
International auditor: Ernst & Young
Office address: 22/F, Citic Tower, 1 Tim Mei Avenue, Hong Kong
- 1.1.7 Legal advisor as to PRC law: DeHeng Law Offices
Legal advisor as to Hong Kong law: Latham & Watkins
- 1.1.8 Domestic shares trustee agency: China Securities Depository and Clearing Corporation Limited
H share registrar: Computershare Hong Kong Investor Services Limited

- Note: 1 Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.
- 2 The Board of Directors of the Bank has elected Mr. Wu Xuemin as the chairman of the Bank. The qualification of Mr. Wu Xuemin as the chairman of the Bank is subject to the approval by the CBRC Anhui Office. Once the approval is obtained, the Bank will register with the industrial and commercial registration authority for the change of its statutory representative in a timely manner.

Chapter I Corporate Information

1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997, and changed its name to Huishang Bank Corporation Limited on 30 November 2005. On 28 December 2005, the Bank officially merged with the 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and the 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened for business on 1 January 2006. On 12 November 2013, H shares of the Bank was listed on the main board of the Hong Kong Stock Exchange (stock code: 3698). The Bank holds a financial institution license numbered B0162H234010001 from the CBRC Anhui Office and a legal entity business license numbered 340000000026144 from the Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC. As at the end of 2017, the registered capital of the Bank was approximately RMB11.05 billion. The Bank successfully issued Overseas Preference Shares with an amount of USD888 million in November 2016 and was listed on the Hong Kong Stock Exchange (stock code: 4608).

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which encompass money market activities, investment and trading activities and transactions on behalf of customers. As of 31 December 2017, Huishang Bank had 9,520 on-the-job employees. Apart from its headquarters, the Bank had 17 branches, 417 front offices (including 3 business department branches and 414 sub-branches) and 680 self-service areas (points). The Bank also has three subsidiaries, namely Huiyin Financial Leasing Co., Ltd., Jinzhai Huiyin Rural Bank Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd. and owns equity interest in Chery Huiyin Motor Finance Service Co., Ltd..

By maintaining its market position as a bank "serving the local economy, serving small and medium enterprises ("SME(s)") and serving the general public", the Bank has continuously experienced a relatively fast growth in its business development, has gradually strengthened its comprehensive strength, has steadily improved its operational management standards, and has achieved a synergic development of scale, quality and efficiency, thus building up a good social image of the "local bank", the "people's bank" and the "SME bank", and becoming a regional commercial bank that is more well-known and has considerable influence in Anhui Province and even in the banking industry across China. With the full recognition and widespread praise from all sectors of society, the Bank was named one of the top 200 in the "Top 1000 World Banks" by The Banker, a UK magazine, with the ranking at No. 168, 20 places up from that in the last year.

Chapter I Corporate Information

1.3 AWARDS FOR 2017

In 2017, the Bank won numerous accolades and rewards in contests organized by domestic authorities and organizations:

- ◆ In January, the Bank was awarded the “2016 Innovation Award for Bank Card Business” in the Evaluation of Bank Card Business organized by the Bank Card Special Committee of the China Banking Association.
- ◆ In January, the Bank was awarded the “Model Unit of Civilization Directly under the Provincial Government for 2014-2016” by the Civilization Committee directly under the Anhui Provincial Government.
- ◆ In January, the Bank was awarded the “Outstanding Proprietary Dealer in China Bond Market” in China Bond Market Outstanding Member Ranking for 2016 by China Central Depository & Clearing Co., Ltd.
- ◆ In February, the Bank was honoured as one of the “Top 50 Enterprises for Outstanding HR Selection” at the award ceremony of the “HR Selection Awards in Greater China 2016” organized by ATA, an independent third-party examination and evaluation organization.
- ◆ In February, the Bank was awarded the title of the “Advanced Unit for the Third Session of Anhui Public Cultural Consumption Season” by the Propaganda Department of the Anhui Provincial Party Committee.
- ◆ In March, the Bank was awarded the “Outstanding Dealer in the Interbank Local Currency Market for 2016” in the Outstanding Dealer Ranking in the Interbank Local Currency Market for 2016 by the National Interbank Lending Center.
- ◆ In March, the Bank was awarded the “Provincial Outstanding Unit in Petition Work Responsibility Assessment for 2016” by the Anhui Provincial Party Committee and Provincial Government at the provincial petition work conference.
- ◆ In April, the Bank was awarded the “Advanced Unit in the Rights Protection and Legal Risk Management of the Banking Industry for 2016” by Anhui Banking Association.
- ◆ In April, the Bank was awarded “Good Practices for Women in Anhui” by Anhui Women’s Federation.
- ◆ In April, the Bank was awarded the “Outstanding Contribution to the Financial Literacy Long March in Anhui Banking Industry for 2016” by the Anhui Banking Association.
- ◆ In May, the Bank was awarded the “Advanced Unit of Financial Services for Small and Micro Enterprises in Anhui Banking Industry for 2016” by the CBRC Anhui Office, and the “Distinctive Financial Service for Small and Micro Enterprises in Anhui Banking Industry for 2016” for “You Pu Dai (優鋪貸)” of the Bank.
- ◆ In May, the Bank was awarded the “2017 Best City Commercial Bank – Investment Banking Junding Prize” at the ceremony for Evaluation of Excellent Investment Banks of China for 2016 and the Investment Bank Innovation Value Summit for 2016 organized by “Securities Times”.

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- ◆ In June, the Bank was awarded the “Best Social Responsibility Practice Cases of the Year in the PRC Banking Industry” at the “Conference for Publication of the Corporate Social Responsibility Reports of the PRC Banking Industry for 2016 and Commendation on Social Responsibility Practices” by China Banking Association.
- ◆ In June, the Bank was awarded the “Best Innovative Bank for Trade Finance Products” by the China Banking Association.
- ◆ In June, the Bank was awarded the “Best Integrated Wealth Management Competency” and the “Best City Commercial Bank” in the China Banking Wealth Management Ranking for 2016 by the China Banking Association.
- ◆ In July, the Bank won the second prize for one research achievement and the excellence prize for three research achievements in the “Evaluation of Outstanding Achievements on the Research of Development of the PRC Banking Industry (2017)” organized by the China Banking Association.
- ◆ In August, the Bank was awarded the “Top 10 Direct Selling Banks of the Year” in the “Fifth Comprehensive Evaluation of Banks” organized by Sina Finance.
- ◆ In August, the Bank ranked first for the two consecutive quarters in the Evaluation of the Underwriting Agencies of Saving Bonds by the Hefei Central Sub-branch of the PBOC.
- ◆ In August, the Bank was awarded the title of the “City Bank for Outstanding Contribution to China’s Regional Development in 2017” at the “China Coordinated Regional Development and Investment and Financing Innovation Forum and the Ceremony for Launching China’s Regional Investment and Business Environment” organized by the China Comment (“Banyuetan”) magazine publisher and hosted by Xinhua News Agency under the entrustment of the Propaganda Department of the Central Committee of the Communist Party of China.
- ◆ In October, the Bank was named the “Active Dealer in the Money Market” for the two consecutive quarters by the National Interbank Lending Center.
- ◆ In October, the “Xin Bao Wang Dai (信保網貸)” of the Bank were awarded the third prize of the Nanjing Financial Innovation Awards in the Evaluation of the 2017 Nanjing Financial Innovation Projects organized by the Nanjing Financial Development Office.
- ◆ In November, the Bank was awarded the honorary title of “National Advanced Unit in Internal Audit for 2014 – 2016” by China Institute of Internal Audit.
- ◆ In November, the “intelligent finance” service brand of the Bank was awarded the “Outstanding Individual Financial Service Award” in the evaluation of “Best Solution Award” at the 2017 China International Financial Exhibition organized by the Organizing Committee of the China International Financial Service Exhibition.
- ◆ In November, the Customer Service Center of the Bank was awarded the “2017 Customer Experience Innovation Model” in the Evaluation of the “Chinese Customer Contact Center Prize” by the China Electronic Commerce Association.

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- ◆ In November, the Bank was awarded the “Best Cash Management Bank for 2017” and the “Trading Bank with Highest Growth Potential for 2017” at the 2017 Annual Conference of China Cash and Treasury Management and China Cash and Treasury Awarding Ceremony sponsored by Treasury China.
- ◆ In December, the Bank was awarded the “2017 Innovative Application Award for Direct Selling Banks” at the 10th China E-banking Annual Event co-sponsored by China Financial Certification Authority, China E-banking Joint Promotion Year and the China E-banking Network.
- ◆ In December, the Bank’s direct banking brand “Hui Chang You Cai (徽常有財)” was awarded the “Most Influential Direct Banking for 2017” and the “Direct Banking Innovation Award for 2017” at the 2017 Fifteenth Session of China Internet Conference co-sponsored by the CIWEEK magazine of the Chinese Academy of Sciences, the Information Research Center of the Chinese Academy of Social Sciences and eNet.com.cn.
- ◆ In December, the Bank was awarded the “Employer with the Best Development Potential in China for 2017” in the Evaluation of the “Best Employer of the Year in China” jointly sponsored by the Institute of Social Science Survey of Peking University and Zhaopin.com.
- ◆ In December, the Bank was awarded the “Provincial Advanced Financial Service Enterprise” by the Anhui Provincial Department of Finance.
- ◆ In December, the Bank was awarded the “Class 3 Achievement Prize for the Topics of the Information Technology and Risk Management of the Banking Industry” by the CBRC.
- ◆ In December, the Bank’s “Huinong Card (徽農卡)” (debit card) and “Energy Card (能量卡)” (credit card) were awarded the “Best Unionpay Financial IC Card for Agriculture, Farmers and Rural Areas” and the “Best Care-themed Unionpay Financial IC Card” in Anhui, respectively, by the Hefei Central Sub-branch of the PBOC.
- ◆ In December, the Bank’s “Multi-channel Collaborative Service Platform” won the third prize in the evaluation of the “Bank Science and Technology Development Award for 2016” granted by the PBOC.
- ◆ In December, the Bank was awarded the “Provincial Internal Audit Advanced Unit in the ‘Five-year Promotion Campaign’” by the Anhui Internal Audit Association.
- ◆ In December, the Bank was awarded the “Outstanding City Commercial Bank for 2017” in the “12th Annual Asian Financial Conference and Competitiveness Ranking of Financial Enterprises in the 21st Century” organized by the 21st Century Business Herald, a subsidiary of Nanfang Press and Media Group.
- ◆ In December, the Bank was awarded the “No. 1 in the Banking Industry”, and the “Most Satisfactory Bank for Residents” for the two consecutive years in the “Resident Satisfaction Survey on the Top 10 Service Industries in Anhui” for 2017 as sponsored by the Modern Provincial Affairs Investigation Center of Anhui Province.

Chapter II Summary of Accounting Data and Business Data

2.1 MAIN FINANCIAL INFORMATION

Unit: RMB million, except for percentages

			Changes over the corresponding period of the last year
Operational results	2017	2016	+/(-)%
Net operating income ⁽¹⁾	22,508	20,918	7.60
Profit before tax	9,613	8,813	9.08
Net profit attributable to shareholders of the Bank	7,615	6,870	10.84

Unit: RMB, except for percentages

			Changes over the corresponding period of the last year
Per ordinary share	2017	2016	+/(-)%
Basic earnings attributable to shareholders of the Bank	0.66	0.62	6.45
Diluted earnings attributable to shareholders of the Bank	0.66	0.62	6.45
Closing net assets attributable to shareholders of the Bank	4.68	4.15	12.77

Unit: RMB million, except for percentages

			Changes over the end of the last year
Scale indicators	31 December 2017	31 December 2016	+/(-)%
Total assets	908,100	754,774	20.31
Including: Total loans and advances	314,694	277,371	13.46
Total liabilities	848,888	701,591	20.99
Including: Total customer deposits	512,808	462,014	10.99
Equity attributable to shareholders of the Bank	57,703	51,871	11.24

Note: (1) Net operating income comprises net interest income, net fee and commission income, net trading income, net income from securities investments, dividend income, as well as other operating income, net.

Chapter II Summary of Accounting Data and Business Data

2.2 FINANCIAL RATIOS

Profitability indicators ⁽¹⁾	2017	2016	Unit: %
			Changes over the corresponding period of the last year + / (-)
Return on average assets	0.94	1.01	(0.07)
Return on average equity	15.56	15.63	(0.07)
Net interest spread	2.18	2.42	(0.24)
Net interest margin	2.31	2.59	(0.28)

Proportion of net operating income	2017	2016	Unit: %
			Changes over the corresponding period of the last year + / (-)
Net interest income	89.73	87.68	2.05
Net non-interest income ⁽²⁾	10.27	12.32	(2.05)
Cost-to-income ratio (including tax and surcharges) ⁽³⁾	25.90	27.55	(1.65)

Asset quality indicators	31 December 2017	31 December 2016	Unit: %
			Changes over the end of the last year + / (-)
Non-performing loan ratio	1.05	1.07	(0.02)
Allowance to non-performing loan ratio	287.45	270.77	16.68
Allowance to loans ratio	3.01	2.90	0.11

Capital adequacy indicators	31 December 2017	31 December 2016	Unit: %
			Changes over the end of the last year + / (-)
Core tier I capital adequacy ratio	8.48	8.79	(0.31)
Capital adequacy ratio	12.19	12.99	(0.80)
Total equity to total assets ⁽⁴⁾	6.52	7.05	(0.53)

Notes: (1) The ratios are annualized.

(2) Net non-interest income in this indicator comprises of net fees and commission income, net trading income, net income from securities investments, dividend income and other operating income, net, but excludes net income from investment in joint ventures and associates.

(3) Cost-to-income ratio = Operating expenses/Operating income.

(4) Equity includes minority interests.

Chapter II Summary of Accounting Data and Business Data

2.3 FIVE-YEAR FINANCIAL SUMMARY

	2017	2016	2015	2014	2013
Results for the year (RMB thousand)					
Net operating income	22,508,325	20,918,409	16,977,100	12,748,053	10,172,509
Operating expenses	(5,830,139)	(5,763,036)	(5,435,251)	(4,216,671)	(3,386,435)
Asset impairment loss	(7,202,558)	(6,486,913)	(3,656,836)	(1,197,245)	(435,365)
Profit before tax	9,612,764	8,812,525	7,972,989	7,410,514	6,398,744
Net profit attributable to shareholders of the Bank	7,614,884	6,870,472	6,160,661	5,672,735	4,926,202
Per ordinary share (RMB)					
Dividends	0.125⁽¹⁾	0.061	0.159	0.159	0.156
Basic earnings	0.66	0.62	0.56	0.51	0.58
Diluted earnings	0.66	0.62	0.56	0.51	0.58
Closing net assets attributable to shareholders of the Bank	4.68	4.15	3.72	3.29	2.86
At year end (RMB thousand)					
Paid-in capital stock	11,049,819	11,049,819	11,049,819	11,049,819	11,049,819
Total equity attributable to shareholders of the Bank	57,703,305	51,871,401	41,159,144	36,374,220	31,625,121
Total liabilities	848,887,611	701,590,676	593,785,360	446,211,390	350,437,158
Customer deposits	512,808,182	462,014,409	359,224,554	317,870,043	272,798,242
Total assets	908,099,697	754,773,994	636,130,621	482,764,314	382,109,090
Net loans and advances	305,208,545	269,336,141	237,428,103	214,734,236	191,280,398
Key financial ratios					
Return on average assets	0.94%	1.01%	1.11%	1.31%	1.39%
Return on average equity	15.56%	15.63%	15.75%	16.64%	18.89%
Cost-to-income ratio ⁽²⁾	25.90%	27.55%	32.02%	33.08%	33.29%
Non-performing loan ratio	1.05%	1.07%	0.98%	0.83%	0.54%
Core tier 1 capital adequacy ratio	8.48%	8.79%	9.80%	11.50%	12.60%
Capital adequacy ratio	12.19%	12.99%	13.25%	13.41%	15.19%

Note: (1) The Board of Directors recommends the distribution of cash dividends of RMB0.25 and 1 bonus share per 10 shares to all shareholders. The bonus share is issued at RMB1.00 each.

(2) Cost-to-income ratio = Operating expenses/Operating income.

Chapter III Chairman's Statement



Wu Xuemin

*Executive Director
and Acting Chairman
and President*

Chapter III Chairman's Statement

The year 2017 marked the 12th anniversary of Huishang Bank, which was also a critical juncture of its five-year strategic plan. "Twelve years of strength cultivation will enable us to make substantial progress." Faced with the existing challenges of intertwined risks and potential threats, tightened regulation and accelerated financial disintermediation, Huishang Bank maintained its strategies with determination, centering on the principle of "transformation and upgrading" in its work. The Bank forged ahead in unity, expanded through enterprising initiatives and promoted activities under the theme of the "Year for Developing New Finance" in full swing to boost competitiveness through innovation, steer the balanced development of its business, promote structural adjustment and enhancement, improve its capability to serve the real economy, and achieve sustainable performance growth, excellent asset quality and controllable overall risks.

As at the end of 2017, the Bank recorded total assets of RMB908.1 billion (in domestic and foreign currencies), representing an increase of 20.31% as compared to the beginning of the year; balance of customer deposits of RMB512.808 billion, representing a year-on-year increase of 10.99%; net profit of RMB7.812 billion, representing a year-on-year increase of 11.66%; capital adequacy ratio of 12.19%, non-performing loan ratio of 1.05% and provision ratio for loans of 287.45%. In 2017, the Bank ranked No. 168 among the "Top 1000 World Banks" by *The Banker*, a UK magazine, advancing by 20 places, and fifth among city commercial banks in the "GYROSCOPE" evaluation system of the China Banking Association. Our good operating results can be attributed to the concerted efforts of our employees, the care and support from governmental departments at all levels, regulatory authorities, investors and friends from all walks of life, as well as the trust and backing of our customers. I would like to extend our sincere gratitude to all parties on behalf of the Board of Huishang Bank.

In 2017, Mr. Li Hongming ceased to be the chairman of the Bank and resigned from his positions at the Bank due to change of work. Ms. Xu Demei resigned from her position as vice chairman and executive director due to her age. Mr. Fung Weichang resigned from his position as independent non-executive director. The Board of Directors is deeply grateful to Mr. Li Hongming, Ms. Xu Demei and Mr. Fung Weichang for their outstanding contributions during their terms of office. They contributed their wisdom and hard work in the transformation and upgrading of Huishang Bank.

The achievements and highlights of the efforts of Huishang Bank in innovation began to emerge as it charted its course of transformation and upgrading in 2017. As a city commercial bank, Huishang Bank obtained the qualifications for international factoring, bond market custodian, primary trader in the open market, class A city commercial bank lead underwriter for debt financing vehicles, which embodied the recognition we gained from regulatory authorities and the market. We completed the first CMBS deal with Beijing Financial Assets Exchange, the first city commercial bank debt-to-equity swap project, exhibiting our ever-growing capability in integrated financial services. The establishment of the "Five-in-One" digital financial service system for small and micro enterprises and the launch of innovative products such as "Tax e-Finance", "Online Micro-Lending" and "Credit e-Lending" identified the approaches for alleviating information asymmetry and solving the problem of financing difficulty faced by small and micro enterprises, and created promising conditions for balanced business development as well as structural adjustment and enhancement. Customer experience of personal mobile financial portals was enhanced on an ongoing basis. Launch of innovative direct selling banking products such as "Credit Insurance Peer-to-Peer Lending" and "Smart Investment Platform" laid the foundation for the future development of mobile finance and broadened the room for strategic development. Innovation is an essential element as we map our blueprint for a sound and sustainable development.

In 2018, "stability" will be the key focus of our work, with "progress" as the pivot. Huishang Bank will bear in mind its mission entrusted by the new era and leverage the boundless strength inherent in the socialist ideology with Chinese characteristics of the new era. By "stability" we mean holding on to our original belief, focusing on our principal business and controlling our risks stringently to enhance our capability in serving the real economy continuously. And by "progress" we mean strengthening management, stepping up innovation, adjusting structure to secure quality development steadily as a modern bank.

Wu Xuemin

Executive Director and Acting Chairman

Chapter IV President's Statement

Facing the complex and ever-changing economic and financial environment in 2017, the Bank, based on its business plan determined at the beginning of the year, took the initiative to cater to the new situation and policy by sticking to the belief that innovation spurs transformation while management enhances quality and efficiency, and worked hard and ambitiously to complete the annual operating plan and various tasks assigned by the Board, leading to the further enhancement of the reputation and brand influence of the Bank.

During the year, the Bank focused its efforts in increasing effective investment to serve the real economy. The Bank encouraged businesses to shift their focus from speculation to the real economy and return to their fundamental purposes, and supported the five major development action plans to facilitate the supply-side structural reform. By launching PPP, debt financing and adjustment-to-promotion funds, the Bank provided its mid-sized and large customers with comprehensive financial services covering commercial banking, investment banking and transaction banking so as to effectively support the local economy and social development as well as the industrial transformation and upgrade, thus reinforcing the Bank's role as a mainstream bank in local markets. Attributable to the Bank's promotion of inclusive finance including its support for the development of "Three Dimensional Rural Issues" and small- and micro-sized enterprises and its achievement of "surpassing three indicators", the balance of its products such as "4321" loans, Easy-Revolving-Loan (易連貸) and Shui Rong Tong (稅融通) ranked high among microfinance products within the province. With an aim to facilitate targeted poverty alleviation, the Bank established a poverty alleviation fund to issue targeted poverty alleviation microloans.

During the year, the Bank focused on the acceleration of transformation and upgrade to boost business development. The Bank simultaneously moved forward its corporate banking, retail banking and interbank businesses by means of reinforcing traditional business, developing new business and exploring innovative business, achieving a relatively fast growth in its business development. To better serve the "One Belt, One Road" initiative and support the enterprises to "go global", the Bank furthered its co-operation with major customers from key industries and tapped into comprehensive corporate finance through investment banking business, becoming one of the top underwriting agencies of saving bonds in the province and the first batch of class A lead underwriters among city commercial banks. Expanding retail banking business with an emphasis on inclusive finance, consumer credit and mobile finance, the Bank recorded RMB200 billion assets in retail banking, 1 million valid credit cards and 10 million customers of direct banking brand "Hui Chang You Cai (徽常有財)". Regulating the development of financial industry, financial market and asset management businesses in compliance with regulatory requirements, laws and regulations, the Bank recorded a balance of interbank investments of RMB176 billion, representing an increase of RMB18.2 billion and a decrease of RMB39 billion in year-on-year increment.

During the year, the Bank focused on innovation-driven development and improvement of service capability. To adapt to the new economy and develop new finance, the Bank focused on the real economy and the needs of customers while complying with laws and regulating innovations, thus accomplishing achievements such as becoming a member of first-class dealer for open market and obtaining business qualifications for MLF and international factoring. The Bank pushed forward traditional business by issuing loans for the governments' construction project of beautiful countryside and customized loans for photovoltaic industry, and meanwhile introduced new business such as asset turnover, order financing, debt financing and CMBS. The Bank established a "five-in-one" digital microfinance service system by using mobile, internet and big data technologies, launched online loan products such as Quick-e-Loan (快e貸) and Micro-Linked-Loan (微聯貸) to innovate consumer finance, and developed scenario-based internet finance to optimize online loans and launch direct banking products including One-Dollar-Payment-Loan (一元享花) and Smart-Investments (天機智投).

Chapter IV President's Statement

During the year, the Bank focused on improving management and strengthening support and protection. In compliance with regulatory requirements with a particular emphasis on risk control and management, the Bank conducted the campaign on "Resolving Three Acts of Arbitrage, Three Acts of Violations, Four Inappropriate Practices and Ten Irregularities" to improve internal control system and regulate business development. The Bank carried out credit risk control by emphasizing accountability, optimized liquidity monitoring and alert system to coordinate, allocate and maintain liquidity, and introduced the operational risk management system to prevent cross financial risk and internet financial risk. The Bank further enhanced its support and protection system by strengthening strategy planning, assets and liabilities, financial planning and talent management and improving management on internal audit and information technology.

The spirit of the 19th CPC National Congress will be implemented in 2018. The year also marks the 40th anniversary of China's policy of reform and opening up, and is critical to the construction of a moderately prosperous society and the implementation of the 13th Five-Year Plan. Under the guidance of "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era", the Bank will firmly implement the spirit of the 19th CPC National Congress, the economic work conferences held by the CPC Central Committee and the provincial CPC committee, the nationwide and provincewide financial work conferences and regulatory work conferences held by PBOC and CBRC. Under the direction of the provincial CPC committee, the provincial government and the regulatory authorities, the Bank will seek progress amid stability and reinforce risk control by strengthening management, emphasizing innovation and adjusting structure. Returning to the fundamental purposes of business and focusing on principal business, the Bank will take comprehensive finance and mobile finance as the starting point to expand its customer base, underlying assets and liabilities, aiming to complete the operating plan and various tasks assigned by the Board and set off for the quality development of a modern bank.

Wu Xuemin

Executive Director and Acting President

Chapter V Management Discussion and Analysis

5.1 OVERALL BUSINESS REVIEW

In the face of stricter cautious macro-assessment and peer supervision in 2017, the Bank implemented a macro adjustment and control mechanism as well as a monetary credit policy, and also put regulatory requirements into practice in the constant belief that innovation spurs transformation while management enhances quality and efficiency. All these facilitated a steady expansion of our business scale and improved profitability, realizing steady growth in various business segments and continuous improvement in operating and management level, which were mainly reflected as follows:

The scale of assets and liabilities increased moderately. As of the end of 2017, the total assets of the Bank were RMB908,100 million, representing an increase of RMB153,326 million or 20.31% as compared with the end of last year. Total loans and advances were RMB314,694 million, representing an increase of RMB37,323 million or 13.46% as compared with the end of last year. Total customer deposits were RMB512,808 million, representing an increase of RMB50,794 million or 10.99% as compared with the end of last year.

Non-performing assets increased and provision coverage maintained at a stable level. As of the end of 2017, the Bank's non-performing loan balance was RMB3,300 million, representing an increase of RMB333 million as compared with the end of last year. Non-performing loan ratio was 1.05%, representing a decrease of 0.02 percentage point as compared with the end of last year. Non-performing loan provision coverage ratio was 287.45%, representing an increase of 16.68 percentage points as compared with the end of last year.

5.2 ANALYSIS OF INCOME STATEMENT

5.2.1 Particulars of financial performance

	<i>Unit: RMB million</i>	
	2017	2016
Net interest income	20,197	18,340
Net fee and commission income	2,844	2,491
Other net income	(532)	87
Operating expenses	5,830	5,763
Share of profits in associates	137	144
Impairment losses on assets	7,203	6,487
Profit before income tax	9,613	8,813
Income tax	1,801	1,816
Net profit	7,812	6,996
Net profit attributable to shareholders of the Bank	7,615	6,870

In 2017, the Bank recorded a net profit of RMB7,812 million, representing an increase of 11.66% as compared with last year. The effective income tax rate was 18.74%, representing a decrease of 1.87 percentage points as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.2 Net operating income

In 2017, the Bank had a net operating income of RMB22,645 million (including income from investment in associates and joint ventures), representing an increase of 7.52% as compared with last year, among which, net interest income accounted for 89.19%, representing an increase of 2.11 percentage points as compared with last year; net non-interest income accounted for 10.81%, representing a decrease of 2.11 percentage points as compared with last year.

The following table sets forth the year-on-year comparison of the net operating income for the recent three years.

	2017 (%)	2016 (%)	2015 (%)
Net interest income	89.19	87.08	86.98
Net fee and commission income	12.56	11.83	10.38
Other net income	(2.35)	0.41	2.12
Income from investment in associates and joint ventures	0.60	0.68	0.52
Total	100.00	100.00	100.00

Note: Such analysis of net operating income in the table comprises income from investment in associates and joint ventures.

5.2.3 Net interest income

In 2017, the Bank's net interest income amounted to RMB20,197 million, representing an increase of 10.13% from last year. Such increase was mainly due to an expansion of the scale of interest-earning assets.

The following table sets forth the average balances of assets and liabilities, interest income/expenses and annualized average yield/cost ratio of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB million, except for percentages

	2017			2016		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Interest-earning assets						
Loans and advances	293,570	14,672	5.00	261,084	13,704	5.25
Securities investments	438,767	21,180	4.83	309,294	15,479	5.00
Balances with central bank	80,601	1,232	1.53	69,685	1,078	1.55
Deposits and placements with banks and other financial institutions	37,738	1,012	2.68	52,375	1,670	3.19
Financial leasing	22,577	1,320	5.85	14,810	771	5.21
Total interest-earning assets and interest income	873,253	39,416	4.51	707,248	32,702	4.63

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.3 Net interest income (Continued)

Unit: RMB million, except for percentages

Item	2017			2016		
	Average Balance	Interest Expenses	Average Cost Ratio (%)	Average Balance	Interest Expenses	Average Cost Ratio (%)
Interest-bearing liabilities						
Borrowings from central bank	191	5	2.52 ⁽¹⁾	3	–	1.70 ⁽¹⁾
Customer deposits	510,849	7,802	1.53	420,170	6,688	1.59
Deposits and placements from banks and other financial institutions	198,513	6,710	3.38	138,678	4,375	3.15
Debt securities issued	115,426	4,702	4.07	92,192	3,299	3.58
Total interest-bearing liabilities and interest expenses	824,979	19,219	2.33	651,043	14,362	2.21
Net interest income	–	20,197	–	–	18,340	–
Net interest spread	–	–	2.18	–	–	2.42
Net interest margin	–	–	2.31	–	–	2.59

Note: (1) Interest expenses of borrowings from central bank were small and corresponding cost ratio was calculated in thousands.

In 2017, the net interest spread of the Bank was 2.18%, while the net interest margin was 2.31%. The annualized average yield of interest-earning assets was 4.51%, while the annualized average cost ratio of interest-bearing liabilities was 2.33%.

The following table sets forth the distribution of changes in interest income and interest expenses caused by the changes in scale and interest rates for the period indicated. The changes in scale were measured by the changes of average balances (average daily balances); while the changes in interest rates were measured by changes in average interest rates. The scale changes and interest rate changes caused changes in interest income and expenses, which were included in the impact of interest rate changes on changes in the amount of interest income and expenses.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.3 Net interest income (Continued)

Unit: RMB million

	2017 vs. 2016		Net increase/ (decrease) ⁽³⁾
	Increase/(decrease) factors Scale ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Loans and advances	1,705	(737)	968
Securities investments	6,480	(779)	5,701
Balances with central bank	169	(15)	154
Deposits and placements with banks and other financial institutions	(467)	(191)	(658)
Finance lease receivables	404	145	549
Changes in interest income	8,291	(1,577)	6,714
Liabilities			
Borrowings from central bank	3	2	5
Customer deposits	1,443	(329)	1,114
Deposits and placements from banks and other financial institutions	1,888	447	2,335
Debt securities issued	831	572	1,403
Changes in interest expenses	4,166	691	4,857
Changes in net interest income	4,126	(2,269)	1,857

Notes:

- (1) Represents average balance for the year minus average balance for the prior year, and then multiply by average return rate/cost for the prior year.
- (2) Represents average return rate/cost for the year minus average return rate/cost for the prior year, and then multiply by average balance for the year.
- (3) Represents interest income/expense for the year minus interest income/expense for the prior year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.4 Interest income

In 2017, the Bank's interest income amounted to RMB39,416 million, representing an increase of 20.53% from last year. Such increase was mainly due to the expansion of the scale of interest-earning assets.

Interest income from loans

In 2017, the Bank's interest income from loans and advances amounted to RMB14,672 million, representing an increase of RMB968 million or 7.06% as compared with last year.

The following table sets forth the average balances, interest income and annualized average yields on each component of the Bank's loans and advances for the periods indicated.

Unit: RMB million, except for percentages

	2017			2016		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Corporate loans	183,984	9,879	5.37	162,897	9,818	6.03
Retail loans	89,384	3,969	4.44	73,193	3,318	4.53
Discounted bills	20,202	824	4.08	24,994	568	2.27
Loans and advances	293,570	14,672	5.00	261,084	13,704	5.25

Other interest income

In 2017, the Bank's interest income from securities investments amounted to RMB21,180 million, representing an increase of RMB5,701 million or 36.83% as compared with last year. Interest income from balances with central bank amounted to RMB1,232 million, representing an increase of RMB154 million or 14.29% as compared with last year. Interest income from deposits and placements with banks and other financial institutions amounted to RMB1,012 million, representing a decrease of RMB658 million or 39.40% as compared with last year. Interest income from financial leasing amounted to RMB1,320 million, representing an increase of RMB549 million or 71.21% as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.5 Interest expenses

In 2017, the Bank's interest expenses amounted to RMB19,220 million, representing an increase of RMB4,858 million or 33.83% as compared with last year. Such increase was primarily due to the structural change and an expansion of the scale of interest-bearing liabilities.

Interest expense on customer deposits

In 2017, the Bank's interest expense on customer deposits recorded RMB7,802 million, representing an increase of RMB1,114 million or 16.66% as compared with last year. Such increase was mainly due to the year-on-year increase of 21.58% in the average balance on customer deposits.

The following table sets forth the average balance, interest expenses and annualized average cost ratio of the Bank's corporate deposits and retail deposits for the periods indicated.

Unit: RMB million, except for percentages

	2017			2016		
	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)
Corporate deposits						
Demand deposits	226,084	1,568	0.69	179,291	1,121	0.63
Time deposits	140,574	3,962	2.82	120,300	3,611	3.00
Sub-total	366,658	5,530	1.51	299,591	4,732	1.58
Retail deposits						
Demand deposits	49,292	223	0.45	40,993	165	0.40
Time deposits	73,037	1,859	2.55	52,382	1,430	2.73
Sub-total	122,329	2,082	1.70	93,375	1,595	1.71
Others	21,862	190	0.87	27,204	361	1.33
Total customer deposits	510,849	7,802	1.53	420,170	6,688	1.59

Other interest expenses

In 2017, interest expense on deposits from banks and other financial institutions amounted to RMB6,710 million, representing an increase of RMB2,335 million or 53.37% as compared with last year. Interest expenses on issuance of bonds amounted to RMB4,702 million, representing an increase of RMB1,403 million or 42.53% as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.6 Net non-interest income

In 2017, the Bank realized a net non-interest income of RMB2,449 million, representing a decrease of RMB273 million or 10.03% as compared with last year.

The following table sets forth the principal components of the Bank's net non-interest income for the periods indicated.

	<i>Unit: RMB million</i>	
	2017	2016
Fee and commission income	3,044	2,631
Less: Fee and commission expenses	(200)	(140)
Net fee and commission income	2,844	2,491
Other net non-interest income⁽¹⁾	(395)	231
Total net non-interest income	2,449	2,722

Note: (1) Comprises net trading income, net income from securities investments, other operating income, net, net income from investment in associates and dividend income.

5.2.7 Net fee and commission income

In 2017, the Bank's net fee and commission income was RMB2,844 million, representing an increase of RMB353 million or 14.17% as compared with last year. Such increase was primarily attributable to an increase in custodian and other fiduciary service commissions, agency service fees, settlement and clearing service fees.

The following table sets forth the principal components of the Bank's net fee and commission income for the periods indicated.

	<i>Unit: RMB million</i>	
	2017	2016
Fee and commission income	3,044	2,631
Bank card service	518	514
Settlement and clearing service	130	109
Agency service	337	174
Consultancy and advisory service	151	179
Guarantee and commitment service	35	19
Custodian and other fiduciary service	1,656	1,410
Others ⁽¹⁾	217	226
Fee and commission expenses	(200)	(140)
Net fee and commission income	2,844	2,491

Note: (1) Mainly includes syndicated loan fees, domestic factoring fees and arrangement fees for international trade financing, bond lending fees and finance lease fees.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.8 Other net non-interest income

In 2017, the Bank's other net non-interest income was RMB(395) million, representing a decrease of RMB626 million or 271.00% as compared with last year. Such decrease was mainly due to a decrease in net trading income and other operating income, net.

The following table sets forth the principal components of the Bank's other net non-interest income for the periods indicated.

	<i>Unit: RMB million</i>	
	2017	2016
Net income from securities investments	(76)	(67)
Net trading income	(440)	75
Net income from investment in associates	137	144
Other operating income, net	(17)	76
Dividend income	0.64	3
Total other net income	(395)	231

5.2.9 Operating expenses

In 2017, the Bank's operating expenses were RMB5,830 million, representing an increase of 1.16% as compared with last year. Such increase was primarily attributable to an increase in staff costs, depreciation and amortization and lease expenses to different extents because of the factors such as business expansion and staff increase.

The following table sets forth the principal components of the Bank's operating expenses for the periods indicated.

	<i>Unit: RMB million</i>	
	2017	2016
Staff costs	3,233	2,804
Tax and surcharges	156	650
Depreciation and amortization	440	373
Lease expenses	351	282
Other general and administrative expenses	1,650	1,654
Total operating expenses	5,830	5,763

5.2.10 Asset impairment losses

In 2017, the Bank's allowance to asset impairment losses recorded RMB7,203 million, representing an increase of 11.04% as compared with last year.

	<i>Unit: RMB million</i>	
	2017	2016
Loans and advances to customers		
– collectively-assessed	2,164	2,611
– individually-assessed	2,100	2,156
Available-for-sale financial assets	(159)	430
Investments classified as receivables	2,670	980
Finance lease receivables	234	221
Others	194	89
Total asset impairment loss	7,203	6,487

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS

5.3.1 Assets

As of 31 December 2017, the Bank's total assets amounted to RMB908,100 million, representing an increase of RMB153,326 million or 20.31% as compared with the end of last year. The increase in total assets was primarily due to an increase in loans and advances as well as investments.

Unit: RMB million, except for percentages

Items	31 December 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Total loans and advances	314,694	34.68%	277,371	36.75%
Provision for loan impairment	9,485	1.06%	8,035	1.06%
Net loans and advances	305,209	33.62%	269,336	35.68%
Investments	418,777	46.12%	338,149	44.80%
Cash and balances with the central bank ⁽¹⁾	92,358	10.17%	88,059	11.67%
Deposits with banks and other financial institutions	9,700	1.07%	10,961	1.45%
Placements with banks and other financial institutions	3,553	0.39%	19,320	2.56%
Derivative financial assets	67	0.01%	386	0.05%
Financial assets held under resale agreements ⁽²⁾	36,028	3.96%	516	0.07%
Investments in associates	971	0.11%	539	0.07%
Fixed assets	1,943	0.21%	1,719	0.23%
Deferred income tax assets	4,724	0.52%	2,309	0.31%
Finance lease receivables	26,270	2.88%	18,199	2.41%
Other assets	8,500	0.94%	5,281	0.70%
Total assets	908,100	100.00%	754,774	100.00%

Notes: (1) Cash and balances with the central bank were listed separately in 2016, and are currently listed on a consolidated basis in accordance with the audit report standard.

(2) Financial assets held under resale agreements were included in the deposits with banks and other financial institutions in 2016, and are currently listed separately.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.1 Loans and advances

As of 31 December 2017, the Bank's total loans and advances amounted to RMB314,694 million, representing an increase of 13.46% as compared with the end of last year, and the total loans and advances accounted for 34.68% of the Bank's total assets, down by 2.07 percentage points from the end of last year.

Distribution of loans by product type

The following table sets forth information on the Bank's loans and advances by product type as of the dates indicated.

Unit: RMB million, except for percentages

Items	31 December 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Corporate loans	187,111	59.46%	179,202	64.61%
Discounted bills	15,210	4.83%	16,761	6.04%
Retail loans	112,373	35.71%	81,408	29.35%
Total loans and advances	314,694	100.00%	277,371	100.00%

Corporate loans

As of 31 December 2017, the Bank's total corporate loans recorded RMB187,111 million, representing an increase of 4.41% as compared with the end of last year, and accounted for 59.46% of the total loans and advances of the Bank, decreasing by 5.15 percentage points from the end of last year. In 2017, in view of the macroeconomic environment and regulatory requirements, the Bank reasonably adjusted and controlled its total loan amount, adjusted its loan structure deeply, and systemically prevented various risks, which achieved simultaneous optimization of loan structure and risk return.

Discounted bills

As of 31 December 2017, the Bank's total discounted bills amounted to RMB15,210 million, representing a decrease of 9.25% as compared with the end of last year. In 2017, according to regulatory requirements and changes in bill market, the Bank reasonably developed its discounted bill business to improve the comprehensive return thereof, after thoughtfully considering credit size, market yield, liquidity management and various risks.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.1 Loans and advances (Continued)

Retail loans

As of 31 December 2017, the Bank's total retail loans amounted to RMB112,373 million, representing an increase of 38.04% as compared with the end of last year, and accounted for 35.71% of the total loans and advances, representing an increase of 6.36 percentage points from the end of last year.

Unit: RMB million, except for percentages

Items	31 December 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Personal residential mortgage loans	84,738	75.41%	60,672	74.53%
Personal business revolving loans	6,483	5.77%	8,690	10.67%
Others	21,152	18.82%	12,046	14.80%
Total retail loans	112,373	100.00%	81,408	100.00%

5.3.1.2 Investments

Investments of the Bank consist of listed and non-listed securities denominated in both Renminbi and foreign currencies, including financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and financial assets classified as receivables.

The following table sets forth the components of the investment portfolio of the Bank according to the accounting classification.

Unit: RMB million, except for percentages

Items	31 December 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Financial assets at fair value through profit or loss	2,695	0.64%	5,742	1.70%
Available-for-sale financial assets	143,306	34.22%	120,384	35.60%
Held-to-maturity financial assets	61,129	14.60%	52,352	15.48%
Financial assets classified as receivables	211,647	50.54%	159,671	47.22%
Investments	418,777	100.00%	338,149	100.00%

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Financial assets at fair value through profit or loss

The following table sets forth the components of financial assets at fair value through profit or loss of the Bank.

	<i>Unit: RMB million</i>	
	31 December	31 December
	2017	2016
Government bonds	174	151
Other bonds	1,588	3,099
Interbank certificates of deposit	933	2,492
Total financial assets at fair value through profit or loss	2,695	5,742

Available-for-sale investments

As of 31 December 2017, the Bank's available-for-sale investments increased by RMB22,922 million over the end of 2016, with an increase of 19.04%, which was mainly due to a significant increase of the investment in government bonds.

The following table sets forth the components of available-for-sale investments of the Bank.

	<i>Unit: RMB million</i>	
	31 December	31 December
	2017	2016
Government bonds	29,323	16,896
Financial bonds	15,920	11,302
Corporate bonds	11,824	4,350
Capital trust schemes and asset management schemes	62,415	60,614
Interbank certificates of deposit	14,118	14,605
Equity securities	10	10
Purchase non-guaranteed WMPs		
from other banks	10,000	13,500
Less: provision for impairment	304	893
Available-for-sale investments, net	143,306	120,384

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Held-to-maturity investments

As of 31 December 2017, held-to-maturity investments, net, held by the Bank increased by RMB8,776 million from the end of last year, with an increase of 16.76%. Held-to-maturity investments will be held in the long run for our investment strategy. In 2017, based on the requirements of our bank account interest rate risk management, the Bank increased the proportion of government bonds and corporate bonds, and improved the earning level of investment portfolio.

	<i>Unit: RMB million</i>	
	31 December	31 December
	2017	2016
Government bonds	48,782	39,199
Financial bonds	6,579	9,044
Corporate bonds	5,768	4,109
Held-to-maturity investments, net	61,129	52,352

Loans and investments classified as receivables

Loans and investments classified as receivables are primarily the targeted asset management schemes of brokers as invested by the Bank, and WMPs issued by other commercial banks. There is no open market for these investments. As of 31 December 2017, net investments classified as receivables held by the Bank amounted to RMB211,647 million, an increase of RMB51,976 million from the end of 2016, mainly due to a substantial increase in capital trust schemes and asset management schemes.

	<i>Unit: RMB million</i>	
	31 December	31 December
	2017	2016
Government bonds	134	106
Capital trust schemes and asset management schemes	207,944	155,177
Investment in WMPs of other banks	7,850	6,000
Less: provision for impairment	4,281	1,612
Investments classified as receivables, net	211,647	159,671

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Carrying value and market value

All financial assets classified as financial assets at fair value through profit or loss or bond investments in available-for-sale investments are recorded at market value or fair value.

The following table sets forth the carrying value and market value of the held-to-maturity investments and the investments classified as receivables in the Bank's investment portfolio as of the dates indicated.

Unit: RMB million

	31 December 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
Held-to-maturity investments	61,129	59,264	52,352	52,695
Investments classified as receivables	211,647	211,539	159,671	159,656

5.3.1.3 Subsidiaries and major companies in which the Bank has shareholdings

Name	Initial investment amount (RMB'000)	Percentage of shareholding (%)	Number of shares held at the end of the period (in thousands of shares)	Carrying value at the end of the period (RMB'000)	Sources of shares held	Remark
Jinzhai Huiyin Rural Bank Co., Ltd. ⁽¹⁾	32,800	41	32,800	32,800	Promotion	Subsidiary
Wuwei Huiyin Rural Bank Co., Ltd. ⁽²⁾	40,000	40	40,000	69,513	Promotion	Subsidiary
Huiyin Financial Leasing Co., Ltd.	1,020,000	51	1,020,000	1,020,000	Promotion	Subsidiary
Chery HuiYin Motor Finance Service Co., Ltd.	100,000	20	300,000	971,050	Promotion	Company in which the Bank has shareholding

Notes:

- (1) Due to the changes in the shareholding of Jinzhai Huiyin Rural Bank Co., Ltd. during the Reporting Period, its shareholders, Anhui GuoYuan Investment Co., Ltd. (holding 10% equity interests in Jinzhai Huiyin Rural Bank Co., Ltd.) and Zhang Huai'an (holding 10% equity interests in Jinzhai Huiyin Rural Bank Co., Ltd.) have been acting in concert with the Bank. Such shareholders will agree with the Bank when voting for material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd..

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.3 Subsidiaries and major companies in which the Bank has shareholdings (Continued)

Notes: (Continued)

- (2) In 2010, the Bank invested in and established Wuwei Huiyin Rural Bank Co., Ltd.. Its registered capital was RMB100 million, of which the Bank contributed RMB40 million, accounting for 40% shareholding. Upon the approval from the CBRC, Wuwei Huiyin Rural Bank Co., Ltd. officially opened for business on 8 August 2010. Although the Bank has no absolute controlling interest in Wuwei Huiyin Rural Bank Co., Ltd., after taking into full account of various factors, the company's operating activities since its incorporation indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. Therefore, the Bank has de facto control over it. The Bank included Wuwei Huiyin Rural Bank Co., Ltd. in its consolidated financial statements on 31 December 2014.

For further details of subsidiaries and major companies in which the Bank has shareholdings, please refer to section 5.9.7 of this annual report.

5.3.2 Liabilities

As of 31 December 2017, total liabilities of the Bank amounted to RMB848,888 million, representing an increase of 20.99% as compared with the end of last year. Such increase was mainly due to the growth of customer deposits, placements from banks and other financial institutions, and issuance of bonds.

Unit: RMB million, except for percentages

Items	31 December 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Borrowings from central bank	1,500	0.18%	5	0.00%
Deposits from banks and other financial institutions	95,815	11.28%	83,217	11.86%
Placements from banks and other financial institutions	25,428	3.00%	15,352	2.19%
Derivative financial liabilities	747	0.09%	5	0.00%
Financial assets sold under repurchase agreements	74,931	8.83%	32,619	4.65%
Customer deposits	512,808	60.40%	462,014	65.85%
Taxes payable	2,823	0.33%	1,559	0.22%
Issuance of bonds	115,180	13.57%	91,505	13.05%
Other liabilities	19,656	2.32%	15,315	2.18%
Total liabilities	848,888	100.00%	701,591	100.00%

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.2 Liabilities (Continued)

Customer deposits

The Bank has been focusing on and actively expanding its deposit business. In 2017, despite an increasingly intense competition among the peers, the Bank managed to maintain a steady growth of customer deposits through various effective measures. As of 31 December 2017, total customer deposits of the Bank amounted to RMB512,808 million, representing an increase of RMB50,794 million from the end of 2016, and accounted for 60.40% of the total liabilities of the Bank.

The following table sets forth the Bank's customer deposits by product type and customer type as of the dates indicated.

Unit: RMB million, except for percentages

Items	31 December 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Corporate deposits				
Demand deposits	224,344	43.75%	191,067	41.35%
Time deposits	144,566	28.19%	141,820	30.70%
Subtotal	368,910	71.94%	332,887	72.05%
Retail deposits				
Demand deposits	48,939	9.54%	43,420	9.40%
Time deposits	74,353	14.50%	62,112	13.44%
Subtotal	123,292	24.04%	105,532	22.84%
Other deposits	20,606	4.02%	23,595	5.11%
Include: Pledged deposits	20,025	3.90%	23,117	5.00%
Total customer deposits	512,808	100.00%	462,014	100.00%

As of 31 December 2017, retail deposits of the Bank accounted for 24.04% of total customer deposits, representing an increase of 1.20 percentage points from the end of 2016.

Time deposits from customers of the Bank have decreased by 1.45 percentage points from the end of last year since 2017. As of 31 December 2017, the Bank's demand deposits to total customer deposits ratio was 53.29%, an increase of 2.54 percentage points from the end of 2016. Among them, the proportion of demand deposits in corporate deposits was 43.75%, showing an increase of 2.40 percentage points over the end of 2016; while the proportion of demand deposits in retail deposits was 9.54%, showing an increase of 0.14 percentage point over the end of 2016.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.3 Equity

Items	Unit: RMB million	
	31 December 2017	31 December 2016
Share capital	11,050	11,050
Other equity instruments	5,990	5,990
Capital reserve	6,751	6,751
Surplus reserve	7,953	6,536
Statutory general reserve	7,723	6,208
Investment revaluation reserve	(870)	(121)
Retained earnings	19,106	15,457
Total equity attributable to shareholders of the Bank	57,703	51,871
Non-controlling interest	1,509	1,312
Total equity	59,212	53,183

5.4 LOAN QUALITY ANALYSIS

5.4.1 Distribution of loans by the five-category classification

The following table sets forth the distribution of the Bank's loans by the five-category classification as of the dates indicated.

	31 December 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
<i>(in RMB100 million, except for percentages)</i>				
Pass	3,068.95	97.52	2,689.66	96.97
Special mention	44.99	1.43	54.38	1.96
Substandard	13.69	0.44	21.34	0.77
Doubtful	10.17	0.32	6.02	0.22
Loss	9.14	0.29	2.31	0.08
Gross loans and advances to customers	3,146.94	100.00	2,773.71	100.00
Total non-performing loans	33.00	1.05	29.67	1.07

Under the five-category classification system of the loan supervision, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. Affected by changes of the external business environment, the Bank's asset quality faced serious challenges in 2017. By focusing on risk prevention and accelerating disposal treatment, the Bank maintained stable quality of assets. As of the end of the Reporting Period, the NPL ratio of the Bank was 1.05%, representing a decrease of 0.02 percentage point as compared with the end of last year.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.2 Distribution of loans and NPLs by product type

The following table sets forth the distribution of loans and NPLs by product type as of the dates indicated.

	31 December 2017				31 December 2016			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Corporate loans	1,871.11	59.46	26.81	1.43	1,792.02	64.61	22.70	1.27
Discounted bills ⁽¹⁾	152.10	4.83	-	-	167.61	6.04	-	-
Retail loans	1,123.73	35.71	6.19	0.55	814.08	29.35	6.97	0.86
Total loans and advances to customers	3,146.94	100.00	33.00	1.05	2,773.71	100.00	29.67	1.07

Note: (1) Overdue discounted bills are transferred to corporate loans.

5.4.3 Distribution of loans and NPLs by industry

The following table sets forth the distribution of loans and NPLs by industry as of the dates indicated.

	31 December 2017				31 December 2016			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Commerce and services	487.82	15.51	9.14	1.87	581.33	20.96	8.90	1.53
Manufacturing	431.28	13.70	11.91	2.76	409.94	14.78	8.05	1.96
Public utilities	487.58	15.49	0.05	0.01	365.11	13.16	-	-
Real estate	118.95	3.78	1.71	1.44	111.00	4.00	2.54	2.29
Construction	147.23	4.68	1.34	0.91	127.66	4.60	0.47	0.37
Transportation	59.24	1.88	0.30	0.51	39.50	1.42	0.51	1.29
Energy and chemical	58.89	1.87	-	-	59.03	2.13	0.44	0.75
Catering and travelling	15.36	0.49	2.05	13.35	18.74	0.68	1.52	8.11
Education and media	10.72	0.34	-	-	18.80	0.68	0.08	0.43
Financial services	41.15	1.31	-	-	44.57	1.61	-	-
Others ⁽¹⁾	12.89	0.41	0.31	2.40	16.34	0.59	0.19	1.16
Discounted bills	152.10	4.83	-	-	167.61	6.04	-	-
Retail loans	1,123.73	35.71	6.19	0.55	814.08	29.35	6.97	0.86
Total loans and advances to customers	3,146.94	100.00	33.00	1.05	2,773.71	100.00	29.67	1.07

Note: (1) Others mainly include the planting, forestry, and livestock industry and the fishery industry.

In 2017, the Bank overall credit strategy was to “practice green concept of credit business, optimize the allocation of credit resources, actively support the development of the real economy, strengthen risk controls of key areas and key industries, and adhere to the bottom risk line”. The Bank guided credit resources to better serve the real economy and actively allocated credit resources to “small and micro” enterprises as well as developed green credit. The Bank also implemented credit limit management over local government financing platforms, real estate and overcapacity industries, and implemented industry risk prevention and control on the “Non-green Industries” such as steel, coal and shipbuilding and relevant steel and coal trading industries. During the Reporting Period, the increments of non-performing corporate loans of the Bank were mainly from manufacturing, and commercial and service sectors.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.4 Distribution of loans and NPLs by geographical segment

The following table sets forth the distribution of loans and NPLs by geographical segment as of the dates indicated.

	31 December 2017				31 December 2016			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Anhui	2,911.83	92.53	30.52	1.05	2,540.96	91.61	25.54	1.01
Jiangsu	235.11	7.47	2.48	1.01	232.75	8.39	4.13	1.77
Total loans and advances to customers	3,146.94	100.00	33.00	1.05	2,773.71	100.00	29.67	1.07

The Bank has expanded its business into Nanjing, Jiangsu Province since the beginning of 2009. As at the end of 2017, total loans of Jiangsu Province accounted for 7.47% of the total loans and advances to customers, while NPLs of Jiangsu Province accounted for 7.52% of the Bank's total NPLs.

5.4.5 Distribution of loans and NPLs by type of collateral

The following table sets forth the distribution of loans and NPLs by type of collateral as of the dates indicated.

	31 December 2017				31 December 2016			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Collateralized loans	1,334.30	42.40	17.04	1.28	1,386.88	50.01	19.52	1.41
Pledged loans	663.64	21.09	0.35	0.05	181.14	6.53	0.60	0.33
Guaranteed loans	592.24	18.82	13.66	2.31	701.79	25.30	8.42	1.20
Unsecured loans	404.66	12.86	1.95	0.48	336.29	12.12	1.13	0.34
Discounted bills	152.10	4.83	-	-	167.61	6.04	-	-
Total loans and advances to customers	3,146.94	100.00	33.00	1.05	2,773.71	100.00	29.67	1.07

During the economic downturn period, the Bank focused on the implementation of risk mitigation measures including increasing collaterals to prevent and control risk. As at the end of the Reporting Period, both NPL and NPL ratio of loans secured by collateral and guaranteed loans recorded increases compared with the end of last year due to the effect of an overall economic environment. The Bank has adopted other risk mitigating measures such as improving its guarantee and assets preservation under litigation to handle NPL risk in a timely manner.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.6 Loans of the top 10 single borrowers

The following table sets forth the Bank's loans of the top 10 single borrowers as of the date indicated.

Top 10 borrowers	Industry borrower belongs to	Amount of loans as of 31 December 2017 (RMB million)	% of net capital
A	Financial services	2,000.00	2.64%
B	Construction	1,495.28	1.98%
C	Manufacturing	1,400.00	1.85%
D	Real estate	1,100.00	1.46%
E	Public utility	1,065.77	1.41%
F	Public utility	1,000.00	1.32%
G	Public utility	1,000.00	1.32%
H	Public utility	1,000.00	1.32%
I	Public utility	1,000.00	1.32%
J	Public utility	1,000.00	1.32%
Total		12,061.05	15.94%

5.4.7 Distribution of loans by overdue period

The following table sets forth the distribution of loans by overdue period as of the dates indicated.

	31 December 2017 (RMB million)	31 December 2016
Total overdue customer loans and advances listed by duration		
Within 3 months	2,637	1,609
3 to 6 months	1,249	1,444
6 to 12 months	975	1,737
Over 12 months	1,932	1,274
Total	6,793	6,064
Percentage		
Within 3 months	38.82%	26.53%
3 to 6 months	18.39%	23.82%
6 to 12 months	14.35%	28.65%
Over 12 months	28.44%	21.00%
Total	100.00%	100.00%

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.8 Restructuring loans

During the Reporting Period, the Bank's restructuring NPLs amounted to RMB45.6733 million, with assets quality being classified as substandard, which included 10 corporate loans amounting to RMB37.4041 million and 7 retail loans amounting to RMB8.2692 million. In 2017, the restructuring NPLs of the Bank amounted to RMB45.6733 million, representing an increase of RMB10.5771 million from last year.

5.4.9 Transfer of credit assets

The Bank disposes of its non-performing credit assets by transferring such assets to third parties in its ordinary course of business. In 2017, the Bank transferred such assets in an original loan value of RMB1,482 million, and derecognized such loans.

5.4.10 Change of allowances for loan impairment

The Bank reviews its loan portfolios to assess impairment loss on a periodic basis. In determining whether there is an impairment loss, the Bank makes judgments on whether there is any observable data indicating that there is a decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within an individual loan in that portfolio. For assets with similar credit risk characteristics and objective evidence of impairment, the Bank makes estimation on the future cash flows of such loan portfolio based on historical loss experience for similar assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed by the Bank regularly to reduce any differences between the estimated impairment loss and the actual loss on loans.

The following table sets forth the changes of allowances for impairment on loans to customers.

	<i>Unit: RMB million</i>	
	2017	2016
Balance at beginning of the year	8,035	6,006
Allowances for impairment on loans to customers	4,262	4,767
Unwind of discount on allowance	(57)	(89)
Loans written-offs/transferred during the year	(2,971)	(2,807)
Loans collected during the year	216	158
Balance at end of the year	9,485	8,035

Chapter V Management Discussion and Analysis

5.5 CAPITAL ADEQUACY RATIO ANALYSIS

The Bank continued to optimize structure, enhance capital management, and meet the regulatory requirements on capital adequacy ratio set by the CBRC within the Reporting Period.

The Bank calculated the capital adequacy ratio in accordance with the relevant requirements contained in the “Administrative Measures for the Capital Management of Commercial Banks (Trial)” issued by the CBRC. As of 31 December 2017, the Bank’s capital adequacy ratio was 12.19%, core Tier 1 capital adequacy ratio was 8.48%, and Tier 1 capital adequacy ratio was 9.46%.

The table below shows information relating to capital adequacy ratios of the Bank as at 31 December 2017:

Unit: RMB million, except for percentages

	31 December 2017
Core Tier 1 capital	52,795.96
Including: Paid-in capital	11,049.82
Capital reserve	5,881.04
Surplus reserve and statutory general reserve	15,675.83
Retained earnings	19,106.52
Non-controlling interests	1,082.75
Regulatory deductions for core Tier 1 Capital	(164.02)
Core Tier 1 capital, net of deductions	52,631.94
Other Tier 1 capital, net of deductions	6,134.46
Tier 1 capital, net of deductions	58,766.40
Tier 2 capital	16,904.82
Including: Tier 2 capital instruments and premium	10,000.00
Surplus loan loss provisions	6,616.09
Non-controlling interests	288.73
Total capital, net of deductions	75,671.22
Credit risk-weighted assets	582,861.40
Market risk-weighted assets	602.15
Operational risk-weighted assets	37,515.24
Risk-weighted assets	620,978.79
Capital adequacy ratio	12.19%
Tier 1 capital adequacy ratio	9.46%
Core Tier 1 capital adequacy ratio	8.48%

Chapter V Management Discussion and Analysis

5.5 CAPITAL ADEQUACY RATIO ANALYSIS (Continued)

Pursuant to regulatory requirements, the capital adequacy ratio of the Bank above is calculated after consolidating relevant data of Jinzhai Huiyin Rural Bank Co., Ltd., Wuwei Huiyin Rural Bank Co., Ltd. and Huiyin Financial Leasing Co., Ltd..

Leverage ratio

Item	31 December 2017	31 December 2016
Leverage ratio	5.94%	6.25%
Tier 1 capital, net of deductions	58,766	52,606
Adjusted balance of assets on and off the balance sheet	988,386	841,398

Note: Indicators related to leverage ratio are calculated pursuant to the "Administrative Measures for Leverage Ratio of Commercial Banks (Revised)" (No. 1 Order of CBRC in 2015) effective from 1 April 2015, among which, Tier 1 capital, net of deductions, is audited data, while adjusted balance of assets on and off the balance sheet is unaudited data required by the regulator.

5.6 SEGMENT PERFORMANCES

Operating segments

The Bank provides services through four main business segments: corporate banking, retail banking, treasury and others. The table below sets forth the performance of operating segments of the Bank as at the periods indicated.

	January to December 2017		January to December 2016	
	Total segment profits	Percentage (%)	Total segment profits	Percentage (%)
	<i>(RMB million, except for percentages)</i>			
Corporate banking	5,087	52.92	4,561	51.76
Retail banking	974	10.13	872	9.89
Treasury	3,135	32.61	3,003	34.07
Others	417	4.34	377	4.28
Total	9,613	100.00	8,813	100.00

During the Reporting Period, the total profits of corporate banking business of the Bank amounted to RMB5,087 million, representing 52.92% of total profits. Total profits of retail banking business amounted to RMB974 million, representing 10.13% of total profits. Total profits of treasury business amounted to RMB3,135 million, representing 32.61% of total profits.

Chapter V Management Discussion and Analysis

5.6 SEGMENT PERFORMANCES (Continued)

Geographical segments

Geographically, the Bank's business is mainly in Mainland China. It has set up branches in Anhui Province and Pan-Yangtze River Delta area. The table below lists the Bank's geographical segments performance as at the periods indicated.

	31 December 2017				Total
	Anhui Province	Pan-Yangtze River Delta area	Head office	Intersegment eliminations	
Segment assets	570,819	59,808	491,834	(219,086)	903,375
Include: investments in associates			971		971
Deferred income tax assets	–	–	–		4,725
Total assets					908,100
Segment liabilities	(324,100)	(55,449)	(688,425)	219,086	(848,888)
Total profits	6,210	546	2,857		9,613

	31 December 2016				Total
	Anhui Province	Pan-Yangtze River Delta area	Head office	Intersegment eliminations	
Segment assets	453,208	49,295	435,163	(185,201)	752,465
Include: investments in associates			539		539
Deferred income tax assets	–	–	–		2,309
Total assets					754,774
Segment liabilities	(266,682)	(45,906)	(574,204)	185,201	(701,591)
Total profits	5,515	510	2,788		8,813

5.7 OTHERS

5.7.1 Off-balance sheet balances and important circumstances that may have significant impacts on the financial position and operating results of the Bank

The off-balance sheet items of the Bank include letter of guarantee, letter of credit, bank acceptance and bank commitment letters. Commitment letters include loans commitment, operating leases commitment, capital commitment and certificate bond honor commitments. Contingencies and commitments can be found in Note 40 of the financial statements.

5.7.2 Overdue outstanding debt

At the end of 2017, the Bank had no overdue outstanding debt.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION

In 2017, China experienced a significant economic boom and rebound in economic growth due to various factors such as a notable turnaround in external demands, a combination of the existing and new dynamics and the implementation of supply-side structural reform. 2018 will be the first year for putting the guiding principles from the 19th National Congress of the Communist Party of China into action and securing a decisive victory in building a moderately prosperous society in all respects. Structural adjustment will be expedited in the wake of strong impetus and willingness for faster growth in all aspects.

1. Entering the stage of quality economic development

High- to medium-speed growth has become a normal phenomenon. On the one hand, as China's economic volume is the second largest in the world, it is difficult in the long run to sustain a growth of over 10% as in the past, but the increment brought by high- to medium-speed growth is still considerable. In 2017, the economic increment of China was equivalent to the economic aggregate of Spain's economy, the world's 14th largest economy entity in 2016. On the other hand, the structural imbalance in production capacity behind the long-term extensive growth emerged. The supply-side structural reform was further pushed forward and structural adjustment was expedited. The existing theme of "making progress while maintaining stability" was also reflected in the stable growth in the total output and the progress in improving the quality of economic development, with the current focus on mitigating and resolving the problems of unbalanced and inadequate economic development on an ongoing basis. In 2017, the Central Economic Work Conference continued to tune down its statements on economic growth, and the era of solely pursuing GDP growth is now history.

The quality of the economy has witnessed an enhancement trend. Under the overall tone of making progress while maintaining stability, the quality of the economy will be enhanced. Firstly, in terms of economic stability, with a series of economic and financial policies being further pushed forward, major economic and financial risks and potential threats, such as financial asset bubbles, real estate bubbles and overcapacity bubbles, will gradually be resolved and the stability of the economy will be enhanced. Secondly, in terms of economic structure, under the impetus of measures such as further promotion of the supply-side structural reform, speeding up of the building of an innovative nation and triggering of the vitality of various market players, the economic structure of China will continue to be optimized, which will be reflected in the accelerated development of advanced manufacturing industries, enhancement and upgrading of traditional industries, and profound integration of emerging technologies and the real economy. Thirdly, in terms of the well-being of people, under the impetus of targeted poverty alleviation, prevention and treatment of pollution, regional coordination and livelihood improvements, the overall environment for production and living will be improved. Meanwhile, people will enjoy greater convenience and better experience in their daily life thanks to Internet technologies, which will increase their spending power and appetite for consumption.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

2. Adjustment to the economic structure set to accelerate

The three-pillar structure will continue to improve, where consumption will gradually become the key driver to economic growth, with the contributions from investment weakening gradually.

While there will be no substantial rebound in overall investment growth, structural opportunities still exist. From the perspective of overall return on investment, with the continuous growth in China's economy and investment over the past years, the phenomenon of diminishing marginal returns on investment has become very obvious, resulting in dwindled investment appetite in the economy. In terms of structural adjustment, the supply-side structural reform will continue to be further pushed forward. The progress of building a nation strong in manufacturing will be expedited. During the process of eliminating obsolete production capacity and nurturing emerging production capacity, there is bound to be "an alternative way out" in making investments. And as regards investment opportunities, the investment in emerging industries and in sectors for improving weak links will be under the spotlight, demonstrating a trend of structural upgrading which will bring more structural opportunities gradually.

The role of consumption in driving economic growth will continue to be strengthened. From the perspective of wealth building, China's GDP per capita had already reached US\$5,000 in 2011 and is now heading towards US\$10,000 per capita. Correspondingly, residents' spending power is building up, consumption sentiment is rising, and consumption structure is being upgraded on an ongoing basis. Regarding the convenience of consumption, Internet technologies and social production and living have seen accelerated integration in recent years, and the convenience and experience of consumption have improved continuously. As people can obtain goods and services they really want anytime, anywhere, the demand for consumption will expand continuously and more consumption potential will be unleashed. And according to consumption data, the consumption growth in China contributed 64.6% and 58.8%, respectively, to economic growth in 2016 and 2017, and the model of a consumption-driven economy has emerged.

Imports and exports have seen a pick-up trend. In 2017, the total volume of imports and exports increased by 14.2%, reversing the trend of decline for two consecutive years. It is expected there will be tailwinds for imports and exports in 2018. Firstly, the external economic environment is improving, with the global economy witnessing a synchronised recovery, which will create a promising external environment for China's import and export trade. Secondly, under the impetus of the "One Belt, One Road" strategy, China's economic trade activities with countries along the route have become more frequent, with vigorous tapping of emerging markets promoting foreign economic cooperation, which is conducive to the steady growth in imports and exports. Thirdly, China is building itself into a strong manufacturing nation. The effects of further promoting the supply-side structural reform and strengthening the manufacturing sector will become more significant as the policies on industry upgrade begin to bear fruit, which will be conducive to the steady growth in China's imports and exports.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

3. Innovation as a new economic growth engine

The cultivation and functioning of innovative drivers necessitate numerous inputs such as research and development, commercialization and application of innovations. These input and output mechanisms differ significantly from the traditional factors of production. In 2017, the National Bureau of Statistics of China carried out a survey on research and development expenditures, and tax incentives were granted accordingly. Looking forward, such supportive policies will be further introduced. In the future, innovations are expected to empower the traditional economy, promote the supply-side structural reform process, upgrade traditional industries, grow the emerging industries, and facilitate the optimization and adjustment of economic structure through the application of new technologies and new models. With the increasing participants and outcomes, innovation activities will also become more tangible and evaluable, thus contributing to and influencing economic development in a more visible manner.

4. Improving housing supply through a combination of measures

The proposition that “we shall insist that housing is for living, rather than for speculation” was introduced in the report of 19th National Congress of the CPC, where housing is regarded as a key element of social security. Since the start of the housing reform in 2002, real estate has been a great stabilizer for economic growth. However, the real estate market may step into a moderated and healthy growth stage, given the recent firm resolution of the Chinese government to curb the mushrooming housing prices. Since 2017, both accommodative and tightening policies have been seen for the real estate market. Tightening means the stricter regional policies on housing purchases and loans, as well as mortgage loans in disguised form. The accommodative policies, unlike those adopted previously, are designed to fundamentally solve the housing problem. On the one hand, policies were introduced to link housing inventory and the land area granted for housing in order to stabilize housing land supply. On the other hand, supportive measures on leased housing were actively introduced, such as the land premium for leased housing in some provinces and cities which is set at only one-fifth of the original market price. The hiking housing prices are expected to be curbed in the future. However, real estate enterprises should still face complexity and uncertainty in administrative measures during a correction period for real estate development before a consistent and stable market expectation is formed.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

5. Monetary policy to replay its natural role under the two-pillar regulatory framework

The two-pillar regulatory framework is an epoch-making initiative. Previously, the implementation of monetary policies tended to be confined by the fragility of the financial system, where the central bank, along with its efforts in meeting monetary policy objectives, had to pay for virtual economic bubbles and found it difficult to coordinate policy intents, measures and effects. The two-pillar regulatory framework allows for appropriate separation of monetary policy from the supervision over financial institutions, and helps reduce the conflict between these two objectives. Going ahead, monetary policy will replay its natural role for the targets including promoting employment, stable prices, sound balance of international payments and stable currency, while macro prudential supervision aims to ensure sound operation and steady development of financial institutions. Therefore, macro prudential supervision is expected to gradually extend from the current MPA (macro prudential assessment) framework to all business lines of commercial banks and all activities of financial institutions. The Financial Stabilization Committee, as proposed at the National Financial Work Conference in 2017, will also play an important role in macro prudential supervision. The Bank should give up the traditional extensive growth model and embrace a transformation towards intensive and value-oriented operation to push forward quality development.

5.9 BUSINESS OPERATION

5.9.1 Wholesale banking

Business overview

The Bank provides a full range of wholesale financial products and services to corporations, financial institutions and governmental and institutional customers. During 2017, based on its characteristics as a city commercial bank, the Bank continued to develop its local market in Anhui Province while exploring Nanjing and markets in other provinces, and provided customers with comprehensive financial services and fully supported the development of the real economy by leveraging various products, means and tools. The Bank continued to strengthen its advantage in the traditional wholesale business with municipal, governmental and institutional customers. It has further accelerated the innovation of its business modes and products, continued to foster new business growth point, adjusted its business structure, enhanced risk control, fully increased its asset profitability, facilitated the steady increase of interest income and rapid growth of the proportion of non-interest income in total income, and promoted the fast and healthy development of the wholesale business. As of 31 December 2017, the Bank's market share of domestic and foreign currency corporate deposit continued to rank the first in Anhui Province for ten consecutive years. Transformative businesses including investment banking and transaction banking had all achieved rapid growth, and innovative businesses including "PPP Quanchengtong (全程通)" were widely recognized by the market.

In 2018, in the constant aim of comprehensive development, the Bank will positively respond to market changes, continue to expand quality clients, strive to strengthen product innovation and services optimization, accelerate structural adjustment and business transformation, enhance professional service ability, so as to provide professional and comprehensive financial services to clients, striving to realize sustainable development of wholesale banking business as well as fully supporting the development of the real economy.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Corporate loans

The Bank's corporate loans mainly include working capital loans, fixed asset loans, PPP project loans, supply chain financing and other loans. During 2017, the Bank, while operating its business in compliance with laws and regulations, adhering to the principle of "taking protective or suppressive measures" and with reference to macro-economic policies of China, further optimized the industry structure of corporate loans by prioritizing its support to structural upgrading industries, traditional industries with competitive advantages and modern services industries. The Bank made great efforts to develop green loans such as new energy, energy conservation and environmental protection loans, and effectively controlled the growth of government financing platforms and loans to the "Non-green Industries". As of 31 December 2017, the Bank's balance of corporate loans (including discounted bills) was RMB202,321 million, increased by RMB6,358 million from the beginning of the year.

In 2017, in order to be more professional, the Bank pushed forward the reform on the professional operating mode of small enterprise businesses, constantly improved the marketing, product innovation, risk control and profit-making capabilities with respect to small enterprise customers, and refined performance evaluation and resource allocation mechanisms. These efforts enabled the Bank to realize the goal of "three no less than" in the growth rate, number of borrowers and proportion of successful loan applications regarding loans extended to small and micro enterprises, and significantly improve its comprehensive financial service capacity and business management level regarding small enterprises. The main approaches were as follows:

Firstly, with focus on leading industries, emerging industries, new business forms and featured economies within the region, the Bank expedited the placement of loans to qualified small enterprises, and raised the proportion of loans in the industry, comprehensive income and market share regarding such small enterprises by properly handling the relationship between development and risks and tapping into (large groups of) customers attracted via platforms and precise marketing model. It reinforced coordination and collaboration among the business lines of corporate banking, financial industry business and retail banking. In line with instructions in the policies of CBRC on financial services for small and micro enterprises, the Bank ensured the realization of "three no less than" in the growth rate, number of borrowers and proportion of successful loan applications regarding loans extended to small and micro enterprises. In this way, the Bank provided effective services to the real economy and entrenched its role as a major and host bank in serving medium and small enterprises in the region.

Secondly, in the context of macroeconomic downturn and rising operational risks of small and micro enterprises, the Bank took the initiatives in solving a range of difficult constraints on business development of small enterprises with professionalism in the five areas of "organization, teams, products, process and assessment" and adhering to the principles of "problem-orientation, self-sustainability and steady advance". As a result, it developed mechanisms of operation, methods of marketing, tools of risk control, enhancement of abilities and guidance of performance, and reached the reform goals of improved efficiency, sustainable operation, controllable risks and replicable models. It also built up a small enterprise professional operating model unique to Huishang Bank in the initial stage.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Corporate loans (Continued)

Thirdly, the Bank stepped up development and marketing of flagship products and promoted customer service ability. Considering the overall scarcity of secured guarantees on offer to and the “short-term, frequent and urgent” financial demands of small and micro enterprises, the Bank kept advancing the development and innovation of products tailored for small and micro enterprises. At present, it has launched approximately 50 standardized small enterprise financial products falling in seven primary categories to cover financial demands of small and micro enterprises at different growth stages and from different industries. It promoted the “Tax e-Finance” business at a faster pace and realized customer attraction through online marketing therewith. It did the utmost to market its featured products including Easy-Revolving-Loan, re-guarantee loans based on the proportion of risks shared by banks and the government and Easy-Tax-Loan. The Bank constantly expanded and optimized small enterprise financial services platform with regards to market demands. It also opened an online loan application channel for small enterprises and put in place a model featuring online application, online-offline combined investigation and online approval. These efforts helped the Bank obtain better market reputation and stronger product competitiveness than other banks.

Fourthly, the Bank carried out precise marketing to boost its ability of customer attraction. It clearly defined the tiered mechanism of marketing platform management, and sorted and integrated resources of information platforms and business platforms at different levels from the head office to sub-branches, so as to realize the marketing and development regarding customers within the platforms. In view of regional industrial layout and economic composition, the Bank intensified efforts to develop target customers with focus on industrial parks, industrial clusters, business circles, professional markets and core manufacturers and chiefly by clustered bulk marketing. The Bank achieved customer attraction through online marketing as it integrated online and offline channels and transformed the models of customer attraction and services. It also formulated marketing standards for target customers, and employed big data in raising the level of precise marketing and enhancing the professional marketing and service abilities of branches and sub-branches.

Discounted bills

In 2017, based on the overall balance of assets size, liquidity, profitability and risk, the Bank actively responded to changes in the operating environment, scientifically followed the pace of bills business development, enhanced the profitability of the bills business, and promoted the healthy and compliant development of bills business. As of 31 December 2017, the Bank’s balance of discounted bills amounted to RMB15,210 million, representing a decrease of RMB1,551 million from the end of the last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Corporate deposits

While continuing its efforts to maintain current customers, the Bank focused on application and innovation of its deposit product portfolios, enhanced coordinated marketing of corporate banking business and personal banking business, so as to provide integrated services solutions to customers and improve comprehensive income of its various businesses. Through developing businesses such as fund business, investment banking, supply chain finance, cash management, bill business and custody business, the Bank has taken in a substantial amount of low-cost corporate deposits by continuously improving the quality of customer services and broadening the sources of deposits. During 2017, the scale of the Bank's corporate deposits grew steadily. As of 31 December 2017, the Bank's balance of corporate deposits amounted to RMB368,910 million (excluding margin deposits), representing an increase of RMB36,023 million from the last year.

Fund business

To meet the new needs of customers under the new situation, the Bank innovatively launched fund cooperation modes, including industry development fund, small and medium enterprise profit-making development fund and poverty alleviation fund. Industry development fund and small and medium enterprise profit-making development fund were used for supporting the development of key regional industries, small and medium enterprises and other relevant industries, while poverty alleviation funds were used for facilitating effective poverty alleviation. As of the end of the Reporting Period, the Bank realized a balance of RMB10,106 million in industry development fund business (including poverty alleviation fund) in which the Bank invested and participated in the operation; RMB1,319 million in small and medium enterprise profit-making development fund.

Transaction banking

Cash management business is a strategic corporate finance business of the Bank in response to the challenge brought by interest rate liberalization. The Bank regards cash management as the core business of transaction banks. Through the establishment of a transaction banking business model to provide various businesses including account management, receipt and payment management, liquidity management, investment and financing management, risk management and information services, the Bank was committed to building a domestic and foreign currency integrated transaction banking services platform, taking advantage of the strength of professional services of transaction banks, met cash management demands of customers during the entire transaction process, fully promoted the fast development of corporate banking business. The Bank also vigorously promoted product innovation, increasingly expanded customer base and services scope, obviously enhanced cash management comprehensive services ability and market influence. Particularly, the Bank's advantageous asset and cash management scheme for government and industries is taking a leading position. During 2017, the transaction amount of cash management business of the Bank exceeded RMB1,200 billion, representing an increase of 20% from the last year. In November 2017, the Bank was awarded the "Best Cash Management Bank of 2017" and the "Trading Bank with Highest Growth Potential for 2017" at the Annual Conference of China Cash and Treasury Management (CCTM), in recognition of its superior performance in the transaction banking sector.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Transaction banking (Continued)

The Bank continued to innovate in the financial service model of supply chain business, leading to better brand image and significantly improved comprehensive services ability and market influence. In 2017, the Bank successfully launched the online supply chain system which enables customers to initiate online supply chain financial transactions. The system provides the Bank with access to the systems of other third parties such as core manufacturers, to enable real-time analysis of various business data and active identification and control of credit risk. By virtue of its outstanding performance in supply chain finance, the Bank was awarded the “Best Bank in Trade Finance Products Innovation” by the China Banking Association in June 2017; and the “Best Bank in Supply Chain Finance” at the Second Annual Meeting of Chinese Transaction Banks organized by the “Trade Finance” magazine publisher in December 2017.

Investment banking business

The Bank focused on carrying out the lead underwriting business of debt financing instruments, asset securitization, merger and acquisition financing, structure financing, investment and financing consultancy and other investment banking businesses, and promoted its business transformation. The Bank further enriched products in investment banking business, and promoted asset securitization, debt financing plans and other innovative products.

The Bank was qualified as one of the first Type B independent lead underwriters in China in February 2016, and in just over one year, was granted Type A lead underwriting qualification by the National Association of Financial Market Institutional Investors in November 2017. Despite the shrinking size of issuance of debt financing instruments in the domestic market, the Bank made a breakthrough in bond underwriting volume in 2017. The Bank registered 13 debt financing instruments with a total registered quota of RMB25,700 million; and issued 25 debt financing instruments with a total underwriting size of RMB10,570 million, representing a year-on-year growth of more than 60%. Currently, the Bank can extend the lead underwriting business to regions where its branches operate, marking another milestone in serving regional economic construction and direct corporate financing.

In 2017, with joint efforts of its head office and branches, the Bank made another breakthrough in asset securitization business, completing lead underwriting of a number of enterprise asset securitization deals and launching the first CMBS securitization product in Anhui province. Moreover, it launched the first commercial property receivables backed debt financing plan of Beijing Financial Assets Exchange, achieving a rapid growth in debt financing plan business in 2017 to further meet the diversified corporate financing needs.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

International Business

In 2017, responding to the call of the government to serve the real economy and implement the “One Belt, One Road” international initiative, the Bank strengthened financial support to new rural construction, and provided comprehensive onshore and offshore corporate banking services in both local and foreign currencies for enterprises. As at the end of 2017, the Bank handled a total of USD8,622 million in international settlement for its customers, representing a year-on-year increase of 27.37%, and its cross-border payment and settlement amounted to USD6.065 billion (excluding Nanjing region), which represented an increase of 16.34% compared with the corresponding period and ranked the 5th among financial institutions within the province.

The Bank always adheres to being customer-based, and constantly improves its international market share. As at the end of 2017, the Bank had 1,627 active customers in trade finance, representing a year-on-year increase of 10.76%. With an increasing international customer pool, the Bank’s customer base continued to consolidate.

In 2017, the Bank continued to seek breakthroughs in product innovation of international business by launching a number of innovative businesses according to market demand, including Global Cultural & Travel Finance (環球融資文旅通), payable-type cross-border financing, direct cross-border loans on domestic guarantee, middle and long term USD private debt, and export finance backed by receivables pool, etc. As at the end of December 2017, the accumulatively granted on-sheet international trade financing amounted to RMB4,021 million; domestic letters of credit and financing business thereunder amounted to RMB25,752 million; and financing external guarantee amounted to USD1,103 million. The scale of innovative financing products hit a new record high. The volume of foreign exchange transactions reached USD12,050 million, while derivative products business (including forward foreign exchange settlement and sales, forward foreign exchange transactions, foreign exchange swap and RMB foreign exchange swaps) increased by 44.01% year-on-year to USD2,513 million, including RMB foreign exchange swaps of USD2,439 million, and the low-cost liabilities of RMB16,500 million provided to the Bank’s treasury business to meet liquidity need.

In distributors channel construction, the Bank became a member of China-Russia financial alliance, implemented its new layout and new strategies of agency banking in line with “One Belt, One Road” policy and further improved its overseas agency networks according to customer and business development demands. The Bank further improved its blacklist-based screening system where banks on the list of global regulation and supervision were screened automatically, and established an anti-money laundering compliance risk management system for overseas agency business. The Bank newly set up a Pound clearing account, taking the total number of overseas clearing accounts for the main settlement currencies to fourteen. The Bank constantly optimized agency banking structure and improved clearing channels, in order to fully meet customer demands for clearing and settlement services.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business

Business overview

In 2017, through enhancing market expansion, providing innovative financial products and services, accelerating business channel and team building, the Bank actively built wealth management systems, conducted the construction of inclusive finance systems, and vigorously promoted outlet capacity improvement. These efforts have helped lay a solid foundation for retail business development of the Bank and improve the performance indicators and regional competitiveness of its retail business.

In 2017, the Bank's active customer base maintained a steady growth, among which the number of medium-to-high-value customers grew faster than others. Customer structure was further optimized. As of the end of 2017, the number of customers with assets of RMB500,000 or above amounted to 69,508, representing an increase of 48.9% as compared with the beginning of the year. The number of customers with assets over RMB2 million increased by 33.3% from the beginning of the year. Wealth management business maintained a rapid growth rate, with the Bank's personal financial assets under management (AUM) exceeding RMB200 billion, sales of wealth management products (WMPs) growing rapidly, and sales of PRC treasury bonds maintaining a leading position in the province.

The scale of deposits and loans of retail customers expanded continuously. Indexes of new retail deposit growth reached the highest level in the history. Market share of retail deposits in Anhui Province has kept rising since the listing of H Shares. Moreover, the growth rate of retail deposits has exceeded the average growth rate of Anhui Province for consecutive years since the listing, while the increase of retail deposits overtook the four major banks in China for two consecutive years, remaining the third highest in the province. The scale of retail deposits at county level recorded significant growth. The business scale of retail loans continued to grow, with the scale of retail loans hitting RMB100 billion and retail loan pricing level increasing continuously.

Bank card fees amounted to RMB518 million in 2017, representing a year-on-year increase of RMB4 million or 0.78%, primarily led by the growth in the income generated from the promotional campaigns of bank card consumptions and credit card installments.

In 2018, with the strong impacts of interest rate liberalization and technology finance, and the increasingly stringent regulatory environment, the retail business will be under the operating pressure to a considerable extent. Nevertheless, the Bank will actively grasp the development opportunities, replay the natural role of financial services and improve comprehensive ability of its personal banking services. Through improving its retail business philosophy, management standard, innovation capability and technology level, the Bank will strengthen the retail business talent pool, improve the capabilities of outlets, broaden wealth management product lines, improve service quality and strengthen data analysis ability. At the same time, the Bank will accelerate the building of wealth centers and sub-branch VIP wealth management rooms, and advance a series of fundamental work including construction of rural inclusive finance ecosystem, community finance and mobile finance, capacity enhancement and consolidation plans for comprehensive sub-branches as well as promotion of the pilot scheme for capacity enhancement of inclusive finance outlets, so as to further optimize the structure of the retail business, maintain a rapid and healthy growth in each of the retail business, and comprehensively improve the overall competitiveness of the retail business and its contribution to the entire business.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Wealth management business

The Bank's personal wealth management business mainly includes personal wealth management services, agency service for sales of funds, agency service for sales of insurance products, agency service for sales of treasury bonds and agency service for sales of gold. In 2017, the Bank launched "Tiantianxin (天天鑫)" high-net-value WMPs with flexible terms and open-ended cyclical customer WMPs to establish a relatively comprehensive and extensive wealth management product line. The Bank's personal non-saving financial assets amounted to RMB86,573 million, representing an increase of RMB34,384 million or 65.88% as compared with the beginning of the year, of which:

In 2017, the total sales of personal WMPs reached RMB161,197 million, representing an increase of 75.11% as compared with the same period of the last year. Meanwhile, agency sales of funds amounted to RMB3,149 million, and agency sales of insurance products amounted to RMB95 million. In addition, the agency sales of treasury bonds amounted to RMB1,149 million, and agency sales of gold amounted to RMB25.0601 million.

In 2017, intermediary personal wealth management business income of the Bank amounted to RMB510 million, representing an increase of RMB125 million or 32.47% as compared with the same period of the last year. Among those, personal wealth management business achieved an intermediary business income of RMB495 million, and agency sales of funds achieved an intermediary business income of RMB3.71 million. Agency sales of insurance products achieved an intermediate business income of RMB4.0713 million. Moreover, sales of PRC treasury bonds achieved an intermediary business income of RMB6.1818 million, and agency sales of gold achieved an intermediary business income of RMB1.2886 million.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Bank card business

One card

In 2017, the Bank further deepened the expansion and operation of the customer base of retail business. In adherence to the customer-centric business philosophy and with an aim to cater to the customers' needs, the Bank vigorously promoted the circulation of financial IC cards, enhanced the resource integration of preferential merchants, proactively carried out various kinds of marketing activities for bank cards, constantly cultivated the card-using habits of customers and constantly enhanced its customer loyalty, so as to further achieve a steady and continuous growth in Huangshan Debit Cards transactions. As of the end of 2017, a total of 11.734 million Huangshan Debit Cards were issued by the Bank. Total deposits of the cards amounted to RMB48.155 billion, and deposit per card amounted to RMB4,104. Throughout the year, the Bank has realized a POS trading volume of 7.5847 million transactions, representing a decrease of 7% as compared with the corresponding period of the last year, and the transaction amount amounted to RMB77.607 billion, representing an increase of 10.42% as compared with the corresponding period of last year.

Credit card

The credit card business will focus on "promoting card issuance, capturing market share, strengthening integration and controlling risks" to prioritize the task of "providing convenient payment tools, and accelerating the development of consumer credit business and the building of online and offline applications". Through the measures such as stepping up product innovation, further expanding the consumer financial products market and strengthening value mining on the existing customer base, the Bank will make efforts to expand the scale of credit card advances to increase its revenue from the business. The Bank will further enrich the content and form of marketing campaigns, improve the credit card mobile payment function and service, and launch the QR code payment product to fully support online and offline payment needs of customers. Efforts will be also made to promote services specific to different client groups, improve customer service channels, streamline customer contact points, optimize service process and enhance customer experience.

As of the end of the Reporting Period, the Bank issued a total of 1,137,764 credit cards, of which 1,018,587 were valid. The number of credit cards issued during the Reporting Period was 370,100. Throughout 2017, the transaction amount of credit cards was RMB26.85 billion in aggregate. The credit card overdraft amount was RMB7.67 billion, representing an increase of RMB1.652 billion as compared with the end of the last year. Credit card income amounted to RMB577 million, representing an increase of 4.0% as compared with the same period of the last year. As of 31 December 2017, credit cards NPL ratio was 2.12%, representing an increase of 0.28 percentage point from the end of the last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Retail loans

In 2017, the Bank increased its effort to develop the personal loan business market, steadily promoted the development of personal consumption loan business and continued to expand the operating scale. The Bank also constantly raised the personal consumption loan pricing level to increase the profitability of personal consumption loans. The overall asset quality of personal consumption loans of the Bank was relatively good and the level of NPL ratio was relatively low, allowing the Bank to take an advanced position among peers. Meanwhile, given that the vast majority of such new NPLs were fully secured by risk mitigation measures, such as collaterals, the possibility of sustaining eventual losses on such loans is slim. As of the end of 2017, the balance of personal consumption loans of the Bank amounted to RMB73.163 billion (excluding credit card installment), representing an increase of RMB21.846 billion or 42.57% as compared with the beginning of the year. Personal consumption loan (excluding credit card installment) NPL ratio of the Bank was 0.14%, representing a decrease of 0.05 percentage point from the beginning of the year.

In 2017, the Bank continued to explore the mode of microloan business and strengthen the construction of microloan mechanism and system to promote the development of personal business loan business. Meanwhile, the Bank further refined microloan products and customer structure to promote the steady development of microloan business under the unfavorable environment of economic downturn.

Retail customer deposits

In 2017, the Bank experienced declining liquidity, blooming development of financial technology, diversification of customer financial needs, and intense competition in the industry. The Bank, by adhering to customer-oriented business philosophy, focused on customer needs on wealth management, payment settlement and consumption loan, and through accelerating market respond speed, promoting rural inclusive financial system construction, getting through offline and online services channel, constantly innovating products and sales model, achieved rapid growth in retail customer deposits. As of the end of 2017, the Bank's retail customer deposits amounted to RMB123.292 billion, representing an increase of 16.83% as compared with the end of the last year. The Bank's county-level retail deposits under the headquarters amounted to RMB33.616 billion, representing an increase of RMB9.552 billion or 39.69% as compared to the beginning of the year. As of the end of 2017, the market share of the Bank's retail deposits in Anhui Province reached 5.85%, representing an increase of 0.47 percentage point from the beginning of the year. Retail deposits of the year were characterized with a fast and steady growth with low cost and optimized structure.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.3 Financial market business

Business strategy

In 2017, China's economy performed resiliently with a steady growth. The PBOC's monetary policy remained sound and neutral, which, coupled with the relatively lower surplus reserve ratio and liquidity assessment (among other factors), posed a heightened pressure on market liquidity. The regulator promulgated a series of regulatory policies to guide market participants to take the initiative to reduce leverage and control risk. For bond investment, the Bank adopted a prudent and robust approach to make rational investment plans. Firstly, the product family was further diversified with higher net interest income. Secondly, the Bank improved its investment structure and effectively managed investment portfolio duration by maintaining a short-to-medium duration strategy to hedge the market interest rate risk. Thirdly, the Bank actively developed market customers, and improved intermediate business income through business innovation and collaboration. As at the end of 2017, the average duration of RMB bond investment portfolios was 2.98 years; return on investment portfolios was 4.07%; and the yield taking into account the tax rebate on the interest income of treasury bonds and railway bonds was 4.61%.

Business development

In 2017, the Bank focused on preventing the interest rate upside risk in the bond market, and promoted sustainable and sound business growth by strengthening innovative concepts and enriching business variety. In May 2017, the Bank obtained the interbank gold bilateral transaction qualification with the approval of Shanghai Gold Exchange, which enables the Bank to fully participate in interbank gold spot, forward and swap transactions with access to more hedging and arbitrage vehicles as well as broadened venues and channels for participation in precious metals trading. The Bank effectively defused duration risk by increasing investment in highly liquid and low-risk assets; and enhanced bond underwriting business through innovative models such as primary and secondary market collaboration and synergized bond and lending operations to improve the intermediate business income. As at the end of 2017, the Bank's investment scale amounted to RMB418.777 billion, representing an increase of 23.84% as compared with 2016.

5.9.4 Asset management business

In 2017, the asset management business of the Bank achieved sound development with its management mechanism constantly improved and customer structure further optimized. In respect of business scale, supported by two major product series, namely "Ben Li Ying" (本利盈) and "Chuang Ying" (創贏), the Bank strengthened product innovation and issuance management in 2017, and the balance of WMPs at the end of the Reporting Period exceeded RMB110 billion. In respect of the customer system, the Bank further strengthened customer segmentation, optimized the mix of wealth management customers, and improved the high-net-worth customer system. The balance of personal WMPs grew by 68.31% year-on-year to RMB72.595 billion, representing a contribution of 65.84% which was 23.62 percentage points higher than that of the same period last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.5 Fund custody business

In 2017, the Bank achieved sustainable and steady growth in custody volume and intermediate business income through continuously strengthening business innovations and diversifying product variety in the custody business. In January 2014, under strong support of the Bank's top executives and with the approvals of the CSRC and the CBRC, the Bank obtained the securities investment fund custody qualification. Accordingly, the Bank commenced custody services for funds, trusts, securities, public offerings, private placements and bank WMPs, marking a milestone in providing integrated banking services. In September 2016, the Bank was further granted the insurance asset custody qualification by the CIRC, another new height in broadening its asset custody product portfolio. In 2017, the Bank continued to step up interbank business development and introduce innovative custody products to boost the income from intermediary business.

As of 31 December 2017, the accrual assets under custody of the Bank amounted to RMB1,330.847 billion, representing an increase of RMB574.813 billion as compared with the corresponding period of the last year. The custody balance amounted to RMB610.942 billion, representing an increase of RMB199.577 billion or 48.52% as compared with the corresponding period of the last year. The Bank's custody business generated a custody fee income of RMB245.8621 million. The number of custody product portfolios amounted to 2,988, increasing 979 or 48.73% as compared with the end of the last year.

5.9.6 Distribution channels

The Bank uses a variety of distribution channels to provide products and services. The Bank's distribution channels are mainly divided into physical distribution channels and electronic banking channels.

Physical distribution channels

As of 31 December 2017, the Bank had a total of 680 self-service banks (including single points), 2,532 cash self-service equipment (including 584 ATMs, 1,093 CRSs, 596 self-service terminals and 259 smart self-service terminals (including self-service card issuing machines)).

Electronic banking channels

The Bank put great emphasis on expanding, improving and coordinating with electronic banking channels, including online banking and mobile banking. In 2017, the Bank enhanced the management on the operation of electronic channels centered on mobile internet, which effectively relieved the pressure on outlets. In 2017, the trading account transactions via retail electronic channels accounted for 88.39%, representing a year-on-year increase of 6.02 percentage points; whereas trading account transactions via corporate electronic channels accounted for 63.62%, representing a year-on-year increase of 2.51 percentage points.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.6 Distribution channels (Continued)

Online banking

In 2017, the Bank's personal online banking business maintained a steady development with a steady growth in customer base and increasing trading activity of customers. As of the end of 2017, the total number of personal online banking customers amounted to 2.9386 million. The number of personal online banking transactions accumulated to 219.3093 million in 2017, representing a year-on-year increase of 11.23%. Among these transactions, the number of online payment transactions was 72.51 million, representing a year-on-year increase of 133.90%, and the transaction amount was RMB40.158 billion, representing a year-on-year increase of 62.45%. In recent years, the enterprise online banking business of the Bank experienced comprehensive and rapid development, with a constantly solidified customer base and increasingly efficient channels. As of the end of 2017, the Bank's total number of enterprise online banking customers amounted to 147,600 and the Bank recorded 50.5008 million enterprise online banking transactions in 2017, representing a year-on-year increase of 23.38%. The transaction amount of enterprise online banking accumulated to RMB2,075.592 billion, representing a year-on-year increase of 0.91%.

Mobile banking

In 2017, the Bank's personal mobile banking continued to maintain a rapid growth with increasing customer activity. As of the end of 2017, the total number of contracted mobile banking customers reached 2.2098 million. In 2017, the number of mobile banking transactions reached 73.8754 million, representing a year-on-year increase of 64.81%, and the transaction amount accumulated to RMB242.006 billion, representing a year-on-year increase of 105.05%.

Direct banking business

In 2017, the Bank ranked the first among peers in terms of the comprehensive strength of the Bank's direct banking brand "Hui Chang You Cai (徽常有财)". As of the end of December 2017, the total number of registered customers of "Hui Chang You Cai (徽常有财)" amounted to over 10 million. The total number of WMPs amounted to over RMB10 billion, with accumulated transaction amount of RMB130 billion. In the 2017 Ranking List of Direct Banks in China published by China Internet Weekly, the Bank's rank rose to the 3rd place among various internet financial institutions in terms of the comprehensive strength in its direct banking business.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings

Subsidiaries

Huiyin Financial Leasing Co., Ltd.

Registered in Hefei, Huiyin Financial Leasing Co., Ltd. (“Huiyin Financial Leasing”), a financial leasing company under the national banking system as approved by the CBRC, officially commenced its business on 30 April 2015 with a registered capital of RMB2,000 million. Huiyin Financial Leasing was jointly established by the Bank, Anhui Foreign Economic Construction (Group) Co., Ltd. and Materials Industry & Trade Company of China Tiesiju Civil Engineering Group Co., Ltd. The Bank contributed RMB1,020 million to the registered capital of Huiyin Financial Leasing, accounting for 51% of its shareholding.

The principal businesses of Huiyin Financial Leasing include: (1) financial leasing; (2) handling financial leasing assets as transferor or transferee; (3) fixed-income securities investment; (4) taking leasing deposits from lessees; (5) taking time deposits of three months or more from non-banking shareholders; (6) inter-bank lending; (7) borrowing loans from financial institutions; (8) off-shore borrowing; (9) sale and disposal of leased properties; (10) economic consultation (carrying out business activities within the business scope approved by the CBRC Anhui Office); and (11) other businesses approved by the CBRC.

Since its opening, Huiyin Financial Leasing, under the philosophy of “setting example, laying foundation, seizing customers and innovating model”, has set up a foothold in Anhui and is open to the national market. It has actively expanded its business scope and customer resources, providing customers with professional and integrated financial leasing services. Huiyin Financial Leasing adheres to the idea of stable business operation and sustainable development and strives to strike a balance among its business scale, speed, quality and efficiency. It promotes business scale expansion, strives to adjust the structure of its customers, products, businesses and income and persists in prudent risk management. In order to strengthen risk prevention and control across the board, it introduces comprehensive risk management and constantly raises the risk management level. Huiyin Financial Leasing constantly improves its own advantage and actively develops its core competitiveness, creating sustainable competitive advantage for its medium-term and long-term development. As at the end of 2017, its total assets amounted to RMB26.661 billion (which includes financial leasing assets amounting to RMB26.270 billion); total liabilities amounted to RMB24.123 billion; and net profits realized in 2017 amounted to RMB325 million, with NPL ratio of 0.43%.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings (Continued)

Subsidiaries (Continued)

Jinzhai Huiyin Rural Bank Co., Ltd.

Registered in Jinzhai County of Lu'an City, Jinzhai Huiyin Rural Bank Co., Ltd. ("Jinzhai Huiyin") officially commenced its businesses on 28 June 2013 with a registered capital of RMB80 million. Jinzhai Huiyin was jointly established by the Bank and Anhui GuoYuan Investment Co., Ltd. along with other enterprises and individuals. The Bank contributed RMB32.80 million to the registered capital of Jinzhai Huiyin, accounting for 41% of its shareholding. The principal businesses of Jinzhai Huiyin include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses approved by the banking regulatory authority under the State Council.

Since its establishment, with the support from shareholders, Jinzhai Huiyin has upheld its original goal upon establishment. It set up a foothold in Jinzhai County and devoted itself to solving the "Three Dimensional Rural Issues" with a mission to promote comprehensive financial reform in the rural villages and accelerate the economic and social development in Jinzhai County. It has focused its business on agricultural credit, deposit growth, channel development, and risk prevention and control, which has produced good results of business development and received recognition from customers, local government and regulatory authorities. Following the establishment of Nanxi and Gubei sub-branches in 2014, it set up Qinshan and Meishan sub-branches in Qinshan Town and the old town of Meishan Town, Jinzhai County, respectively, in 2015. In 2017, it relocated its head office and set up Hongjun Avenue sub-branch in the original location in 2017, further expanding its outlet services coverage. As of the end of 2017, the total assets and total liabilities of Jinzhai Huiyin were RMB1.650 billion and RMB1.519 billion, respectively. Loans and deposits were RMB951 million and RMB1.494 billion, respectively. In 2017, it recorded a net profit of RMB22.6566 million and NPL ratio of 0.25%. Each major operation indicator was in line with regulatory standards.

Wuwei Huiyin Rural Bank Co., Ltd.

Registered in Wuwei County of Wuhu City, Wuwei Huiyin Rural Bank Co., Ltd. ("Wuwei Huiyin") commenced its businesses on 8 August 2010. Its registered capital was RMB100 million, to which the Bank contributed RMB40 million, accounting for 40% of the shareholding. Other major shareholders are local enterprises and individual shareholders in Wuwei. Its principal businesses include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses approved by the banking regulatory authorities under the State Council.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings (Continued)

Subsidiaries (Continued)

Wuwei Huiyin Rural Bank Co., Ltd. (Continued)

Since its opening, Wuwei Huiyin has been adhering to Huishang Bank's operating philosophy. Unremittingly following the Scientific Outlook on Development, it supported the development of "Three Dimensional Rural Issues" economy, individual businesses and SMEs, with base in Wuwei and reliance on local villages and towns. While taking into account the situation of the country-level rural development under neo-urbanization and agricultural modernization, Wuwei Huiyin translated its advantages in advanced corporate governance structure, sound internal control mechanism, leading managerial skills and strong brand influence into actions in accordance with the operating philosophy of "close to the towns, serving Three Dimensional Rural Issues". Under the effective risk control mechanism, Wuwei Huiyin innovated the model of rural credit community, enriched the variety of loans, and optimize the forms and operation processes of services. It provided flexible, high quality and efficient financial services tailored for the customers relevant to "Three Dimensional Rural Issues". It also supported economic development in county area, extended services to the wider rural areas and provided intangible financial support to farmers' production, livelihood and development. On 23 November 2017, its sub-branches in Niubu and Zhushan were officially opened and the number of outlets increased to seven, five of which are rural sub-branches. As of the end of 2017, the bank's total assets and total liabilities were RMB2.849 billion and RMB2.582 billion, respectively. Deposits and loans were RMB2.534 billion and RMB1.724 billion, respectively. In 2017, it recorded a net profit of RMB40.1509 million and NPL ratio of 2.08%. Each major operation indicator was in line with regulatory standards.

Major companies in which the Bank has shareholdings

Chery Huiyin Motor Finance Service Co., Ltd.

Chery Huiyin Motor Finance Service Co., Ltd. ("Chery Huiyin"), which was established on 13 April 2009, is China's first independent brand auto finance company, jointly set up by the Bank and Chery Automobile Co., Ltd. The company was registered in Wuhu City with a registered capital of RMB1,500 million, 300 million shares of which are held by the Bank, accounting for 20% of the shareholding, while Chery Automobile Co., Ltd. holds 735 million shares, accounting for 49% of its shareholding; and Chery Holding Co., Ltd. holds 465 million shares, accounting for 31% of its shareholding.

Approved by the CBRC, the company's principal businesses include: (1) accepting time deposits of three months or more from domestic shareholders; (2) accepting loan security deposits for the purchase of vehicles from auto dealers and car rental deposits from lessees; (3) upon approval, issuing financial bonds; (4) engaging in inter-bank lending; (5) obtaining loans from financial institutions; (6) providing auto loans; (7) providing auto loans to auto dealers for the purchase of vehicles and loans for operating facilities, including showroom construction loans and spare parts and maintenance equipment loans; (8) providing auto financing and leasing businesses (excluding leaseback); (9) selling or repurchasing auto loan receivables and auto financing lease receivables to financial institutions; (10) handling the sale and disposal of rental car for residual value; (11) engaging in consulting and agency businesses regarding auto financing; and (12) subject to approval, engaging in equity investment of financial institutions regarding auto finance.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT

In 2017, the banking industry was faced with more complicated risk challenges due to the interweaving and overlapping of different types of risks under the complex and volatile domestic and international economic environments. The Bank continued to implement its “prudent, rational and stable” risk preference, improve its comprehensive risk management system and adhere to prudent operating philosophy so as to ensure the prudent business development and the objective classification of assets and maintain sufficient risk allowances and capital adequacy. The Bank upheld rational management philosophy and controlled major risks in a scientific and effective way under the mutual constraint of external regulation and internal standards, while sticking to the theory of “two wheels-driven growth”, namely business development and financial innovation. It adhered to a prudent development philosophy, built a comprehensive risk management system that covers all employees and the entire procedure and strived to achieve balanced and coordinated development of scale, quality and efficiency with controllable risks, so as to achieve the value of comprehensive risk management and the strategic goal of transformation and upgrading of the Bank.

5.10.1 Credit risk management

Credit risk represents the risk of financial loss suffered by the Bank due to the failure on the part of a debtor or counterparty to meet its obligations to the Bank under agreements. The Bank’s credit risk primarily comes from loan business, acceptance business, investment business as well as on and off-balance sheet business.

In 2017, guided by comprehensive risk management, the Bank focused on effectiveness and improved credit risk management. The Bank refined the layered risk policy system, formulated comprehensive risk management measures, risk preference, risk quota, impairment provision evaluation and other systems in order to form a transmission mechanism and implement the evaluation. It strictly controlled customer access, enhanced rating management, standardized credit rating, drew up the annual centralized rating plan, clarified work progress and put more efforts on random inspection. The Bank strengthened its risk alert and exit mechanism, and conducted key risk examination on loans associated with sensitive industries such as steel, coal and real estate. The Bank also strengthened its risk control over key fields, including real estate, over-capacity and emerging businesses; and strictly prevented external risk exposures such as guarantee circle and trade financing. Besides, the Bank strictly implemented the national industrial and environmental protection policies on overcapacity industries. The Bank also continued to strengthen its ability to design risk mitigation measures for credit approval, improved the method of credit availability and optimized the credit structure. While focusing on maintaining asset quality, the Bank promoted the implementation of risk management and control policies through comprehensive risk examination and on-site inspection and supervision. The Bank proactively mitigated potential risks by strengthening its follow-up management for loans with significant risks, setting up a watch list of debtors for dynamic management, and formulating solutions including collection, write-off, restructuring and transfer of loans with potential risks on a “one-customer-one-policy” basis, with an aim to dispose of non-performing assets through different channels and ways and enhance the liquidity of inventory assets. During the Reporting Period, the Bank’s NPL balance had increased. However, through implementing a number of measures while reducing old loans and controlling new loans, the risk of decline in asset quality is effectively controlled. Please refer to Section 5.4 “Loan Quality Analysis” in this annual report for the distribution structure.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.2 Market risk management

Market risk is the risk caused by changes in interest rates, foreign exchange rates and other market factors. The Bank is committed to managing potential market losses and providing earning stability within reasonably tolerable range by independently identifying, assessing and monitoring inherent market risk existing in the ordinary course of business. The Bank's market risk management covers the whole process of identification, measurement, control and reporting of market risk. It measures and monitors market risk through the use of sensitivity analysis, exposure analysis, gap analysis, duration analysis, stress testing and VAR analysis, etc.

In 2017, facing complex and dynamic external environment, the Bank strived to enhance market risk management tools and optimize market risk management processes in order to achieve better daily market risk management. The Bank carried out the reform and upgrade of market risk management system, optimized the yield curve and derivatives data and enhanced the efficiency of market risk indicator analysis and the effectiveness of data. The Bank adopted a variety of tools and methods such as cash flow analysis, sensitivity analysis and scenario analysis to conduct quantitative analysis on capital investment. The Bank enhanced market risk quota management, conducted stress tests on interest rate risk of transaction accounts and further improved its capability in quantifying and managing market risk so as to effectively defuse market risk. The Bank insisted on optimizing procedures and innovating technologies. Under the comprehensive risk management framework, the Bank fully identified, accurately measured and constantly monitored market risks associated with its various businesses to control market risks within a reasonably tolerable range.

5.10.3 Operational risk management

Operational risk refers to the risk of loss arising from deficient or problematic internal procedures, personnel, IT systems and external events. The operational risks faced by the Bank mainly comprise external fraud, internal fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, business interruption, IT systems breakdown and execution, delivery and process management.

With respect to operational risk management, the Bank continued to refine the operational risk management system and further strengthened its operational risk management. The Bank continued to promote the establishment of operational risk management system, strengthened the construction of three major instruments for operational risk management, improved the key risk indicators of operational risk, and built an information system for operational risk management so as to enhance the informatization of operational risk management. The Bank also conducted a multi-dimensional risk assessment on institutions, business and customers, etc. in order to achieve the normalization of monitoring operational risk in credit business and other key areas. It sorted out a list of risk clients involving potential risks in other financial institutions by making greater use of external data such as the credit information of the PBOC and carried out risk examination and follow-up solutions so as to avoid risk contagion. The Bank collected major operational risk cases triggered by presidents of sub-branches inside and outside of the Bank regularly and gathered the data of losses from operational risk in order to form key risk indicators and incorporate them into the monitoring system. The Bank also strengthened information technology risk management and focused on emergency response drilling for significant IT systems interruption and business continuity management so as to ensure functioning of the second-line defense of information technology risk.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.4 Liquidity risk management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers' needs for repayment of liabilities due, new loans and reasonable financing, or to satisfy these needs at a reasonable cost. The Risk Management Committee under the Board of the Bank and the Assets and Liabilities Management Committee and the Risk and Internal Control Management Committee under the senior management assume joint responsibilities for formulating policies and strategies on overall liquidity risk management. The Assets and Liabilities Management Department of the Head Office is the leading executive department of liquidity management for the Bank. The Risk Management Department, the Financial Market Department, the Financial Industry Department and the International Business Department, as the major supporting departments for the Bank for liquidity management, are responsible for overall implementation of various tasks as required by the Assets and Liabilities Management Committee.

The Bank's liquidity risk management aims at ensuring that the Bank shall have sufficient funds to meet both expected and unexpected capital requirements (including loan growth, deposit withdrawal, debt maturity, and changes in off-balance sheet irrevocable commitments) in its normal operating environment or under pressure and to create a stable liquidity environment for ongoing operations, thus fostering positive interactions between liquidity management and business development. With adherence to the principles of stability, prudence and rationality for liquidity risk management, the Bank makes reasonable adjustments to the size and structure of assets and liabilities based on changes in market conditions and its needs for business development. On the premise of ensuring liquidity, the Bank strives to pursue profit growth and value growth to achieve unity in the "liquidity, safety and profitability" of bank funds.

In 2017, the Bank further enhanced the sophistication of liquidity management whilst closely monitoring pressures in liquidity management from changes in economic and financial situations. Firstly, it maintained coordinated development of asset and liability businesses, dynamically adjusted its liquidity management strategies and capital operation tempo; secondly, it strengthened liquidity indicator management, improved liquidity risk identification, monitoring and measurement, and improved liquidity risk management ability; thirdly, it strengthened liquidity emergency management, reasonably developed liquidity stress scenarios in response to the external environment to ensure that there would be no liquidity risk in any stress scenarios or within the prescribed shortest survival period, and conducted liquidity stress testing on a quarterly basis as well as prepared related reports. Meanwhile, the Bank also formulated contingency plans to prevent potential liquidity crisis and take effective contingency measures to control risk spreading in liquidity crisis scenarios. As at the end of the Reporting Period, the liquidity coverage ratio of the Bank was 132.00%, while the qualified liquidity assets and net cash outflow in the next 30 days were RMB86.725 billion and RMB65.699 billion, respectively.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.5 Interest rate risk management

Interest rate risk refers to the risk of fluctuation in interest rates which results in adverse impact on the financial position of the Bank. Interest rate risk of the Bank primarily arises from the structural mismatch of maturity dates or re-pricing periods for our banking portfolio. Such structural mismatch of durations may cause the Bank's net interest income to be affected by changes in the prevailing interest rate. In addition, different pricing benchmarks for different products may also lead to interest rate risk for our assets and liabilities within the same re-pricing period. Currently, the Bank primarily assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the duration of our banking portfolio based on its assessment of potential changes in the interest rate environment.

The Bank's financial assets and liabilities are mainly denominated in RMB. As the benchmark interest rates for RMB deposits and loans are determined by the PBOC, the Bank follows the interest rate policies promulgated by the PBOC when carrying out deposit taking and lending activities.

In 2017, the Bank further promoted its in-depth strategic transformation, proactively coped with interest rate liberalization and increased its efforts in optimizing asset-liability structure and customer base structure. Firstly, the Bank actively optimized its loan structure to accelerate business development of retail and small-micro enterprises. Secondly, the Bank proactively strengthened its loan pricing management with the aim of improving its risk pricing capability and return on loans. Thirdly, the Bank further promoted the rapid development of its intermediary business, optimized its income structure and reduced its reliance on interest spread between deposits and loans. Fourthly, the Bank strengthened the analysis of customers' overall contribution using data from management accounting, so as to effectively improve pricing management.

5.10.6 Exchange rate risk management

Exchange rate risk is the risk of loss in the Bank's earnings arising from the duration mismatch of over-bought and over-sold current or forward positions in a particular foreign currency and non-RMB denominated asset and liability due to adverse changes in exchange rate. The Bank's foreign currency assets and liabilities are mainly denominated in U.S. dollars, while the rest are denominated in Euros, Hong Kong dollars and Japanese yen.

The Bank measured its exchange rate risk through qualitative and quantitative analyses. The major methods included gap analysis, duration analysis, exposure analysis, sensitivity analysis, scenario analysis, VAR analysis, stress test and post-inspection. In order to maintain its exchange rate risk within an acceptable range, the Bank implemented stringent limit-based management measures, primarily including trading limits, risk limits, foreign exposure limits and stop loss limits.

The spot and forward foreign exchange transactions of the Bank are mainly transactions conducted on behalf of customers. They are effected by way of "back-to-back" square trading that avoids exchange rate risk to a large extent. Under the new normal of bilateral exchange rate fluctuations of RMB, the Bank will maintain reasonable proprietary position exposures in line with the Bank's limit-based management within the limit of combined exposures approved by the State Administration of Foreign Exchange. In addition, the Bank proactively utilized derivatives to prevent exchange rate risk.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.7 Reputation risk management

In 2017, the Bank effectively managed its reputation risk. There is no reputation risk incident occurred throughout the year. The Bank maintained a good relationship with the media, and the media provided favorable overall feedback.

To control reputation risk, the Bank paid attention to the promotional effect of positive reports externally, and strengthened its reputation risk management internally. To deal with misleading information, the Bank responded quickly, communicated proactively, had a regard for facts and the freedom of the media. The Bank established positive interaction with the media, and effectively avoided reputational risk that may occur.

Going forward, the Bank will focus on enhancing the techniques of directing external public opinion, integrating the resources invested in the media and fostering the unified culture of reputation risk prevention. It will also strive to increase the brand fame and reputation of the Bank through high-level public relations planning.

5.10.8 Compliance risk management

Compliance risk refers to the risk that commercial banks may be subject to legal sanctions, regulatory punishments, major financial losses, or reputation damage as a result of their violation of laws and regulations, rules and criteria.

The Board of Directors of the Bank takes the ultimate responsibility for compliance of the Bank's operation activities. The Risk Management Committee under the Board of Directors monitors compliance risk management effectively. The Board of Supervisors is responsible for supervising the performance by the Board of Directors and the senior management of their duties on compliance management. The senior management is responsible for managing compliance risk, conducting regular assessment on compliance risk and submitting compliance risk report to the Board. The Bank has established a robust compliance risk management system and organizational structure, forming three defense lines at front, middle and back offices interactive with each other, and the vertical double-line reporting system amongst the head office, branches and sub-branches. It was able to constantly improve the compliance risk management mechanism as well as the risk management techniques and procedures so as to ensure effective management and control of compliance risk.

During the Reporting Period, with the focus on its business development strategies, the Bank strived to put internal control as its priority, established the philosophy of "facilitating development through compliance", with an aim to enhance the foresight and pertinence of compliance management. The Bank constantly implemented various requirements of external regulatory authorities, and strengthened the establishment of internal control system. Hence, the compliance risk management mechanism operated effectively, with favorable comments coming from external regulatory authorities. The Bank launched in-depth special self-inspections such as the "Review of Internal Control and External Supervision Enhancement & Irregular Operation and Crime Containment", "Violations of Financial Laws, Violations of Supervision Rules, and Violations of Internal Rules", "Regulatory Arbitrage, Idle Arbitrage and Related Arbitrage in the Banking Industry", "Inappropriate Innovations, Inappropriate Transactions, Inappropriate Incentives, and Inappropriate Collections of Fees" and "Financial Irregularities", and conducted special activities including "Identification of Non-performing Loan Liabilities", "Safe Finance" and "Strengthening the Three Bases and Attaining the Four Adequacies" to actively promote the establishment of compliance culture, and continued to improve its internal rules and regulations, optimize the compliance risk identification and assessment process, strengthen accountability system for non-compliance, and increase the support for legal compliance review and product innovation, thereby offering protection for the operation of the Bank in compliance with laws.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.9 Anti-money laundering management

The Bank attached great importance to anti-money laundering and strictly implemented relevant laws and regulations aiming at preventing and controlling money laundering activities, with sound measures vigorously carried out across the Bank.

During the Reporting Period, the Bank put into practice the principle of “laying emphasis on risks, management, quality and effects” by applying it to anti-money laundering as well, enhanced the “three vertical and three horizontal” network of the anti-money laundering framework and promoted consolidation of resources and active participation by various business departments to effectively strengthen concerted efforts in anti-money laundering. Based on the thinking of establishing “systematic models for capturing indicators of the characteristics of cases”, the Bank collected typical cases of money laundering and their upstream criminal cases through multiple channels, and conducted analysis to sort out the characteristics and fund transaction patterns of money laundering activities for various types of crimes, so as to expand the indicators for self-monitoring of irregular transactions. Through designing, verifying, launching, evaluating and enhancing its models, the Bank adopted full life cycle management of models for monitoring. The Bank also developed sandbox modules of models for anti-money laundering personnel, so as to achieve “tailored” monitoring to strengthen the effectiveness of monitoring suspicious transactions. Based on the suspicious transactions reported by branch institutions, the Bank stepped up the collection, analysis and application of data and information to obtain timely warnings on risks.

Currently, under the increasingly complex international economic and financial conditions, the ways and means of money laundering are becoming more subtle and diverse as information technology, artificial intelligence and internet technology rapidly develop. Anti-money laundering is facing increasingly severe challenges. The Bank will proactively adopt its risk-based anti-money laundering methods to continue to strengthen the internal control mechanisms and to raise the level of money laundering risk prevention and control.

5.10.10 Implementation of the Basel Accord

The Bank is one of the earliest city commercial banks in China devoting itself to the implementation of the Basel New Capital Accord. With measurements of the three main risks under the first pillar as the main theme, the Bank gradually promoted the development and application of the advanced methods for capital measurement in accordance with the requirements of the “Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)” and other regulatory policies. Currently, the Bank has established non-retail and retail credit risk internal grading systems for customers and officially launched them successively. The non-retail credit risk internal grading system for debts has been completed for implementation and is being promoted across the Bank. Having completed the preliminary business consultation for the standards of operational risk management, the Bank is currently conducting the systematic implementation of such standards. The market risk internal modeling is in the argumentation and approval preparation stage.

Chapter V Management Discussion and Analysis

5.11 INFORMATION TECHNOLOGY

In 2017, the information technology work continued to follow the principle of “guarantee, services, lead” in light of the Bank’s overall development strategy. With improved information technology governance and technological work performance to serve various business lines, the information system maintained safe, efficient and stable operation.

Firstly, the Bank improved information technology governance. To meet the new social and economic development situation and inherent needs from the Bank’s transformation and upgrading, the Big Data Department (a tier-two department) was established under the Information Technology Department with a view to providing data support for the Bank’s business innovation and risk management. Financial Technology Department at the branch level was established to integrate business and technical support needs, which is designed to build a composite financial technology team and effectively facilitate product promotion and service transformation and upgrading through the collaboration between the head office and branches.

Secondly, new core and other technology projects were in smooth progress. The Bank stayed focused on its overall business and strategic priorities to actively carry out structural transformation. The new core projects achieved smooth progress and is expected to commence operation in 2018. The Bank put into operation its own cloud service management platform, completed a new network framework plan for the whole Bank, deepened the construction of disaster recovery information system, and steadily improved information technology service capability.

Thirdly, the information security management mechanism continued to improve. The Bank completed the construction and expansion of the bank-wide centralized infrastructure environment monitoring, application performance monitoring and centralized operation and maintenance management platform, and built a management environment for intelligent operation and safe operation across the Bank. The Bank put into operation the information security management platform, and completed the application of digital certificate encryption transmission based on quantum communication technology, thus greatly improving its information security management ability.

Fourthly, information security protection performance was improved significantly. The Bank enhanced its information security protection system; brought forward the information security protection focus; upgraded the operation and maintenance security audit system; completed the construction of a data desensitization platform; carried out information security risk evaluation in advance; and conducted security inspection on an ongoing basis. These efforts helped enhance robustness of information system effectively, leading to comprehensive improvements in the protection against information security risk threats and the electronic data and information security protection standards.

Chapter V Management Discussion and Analysis

5.12 SOCIAL RESPONSIBILITY

In 2017, the Bank adhered to its mission of “commitment to civic responsibility” to serve the local economy. The Bank has been promoting the innovation of financial products to satisfy the various financial needs of customers, while improving its customer service standard and customer experience. It also pushed forward the four financial service strategies, namely “comprehensive finance, inclusive finance, intelligent finance and safe finance” in great depth. During the Reporting Period, the Bank earnestly developed comprehensive finance by employing urbanization funds, government purchase services, PPP and other products to develop comprehensive government finance and effectively serve public infrastructure construction. The Bank made innovations on investment banking, transaction banking and other business models to vigorously support corporate transformation and upgrading; and continuously reinforced the regulating role of green credit as a lever by actively promoting green credit and issuing green bonds to support low-carbon economy. Meanwhile, it advocated inclusive finance by lending support to small and micro enterprises, in order to reduce corporate financing cost and improve the availability of financial services. The Bank vigorously developed rural inclusive finance to support the development of “Three Dimensional Rural Issues” and broaden the coverage of financial services. It also supported poverty alleviation campaigns through industrial programs, targeted programs and other models to improve the precision of financial poverty alleviation. The Bank expedited intelligent finance to provide customers with intelligent services and perfect experience, and improved green services by means of expanding electronic banking and promoting online services, striving to offer more efficient and environment-friendly financial services to customers. Adhering to the concept of safe finance with a long-term view to the comprehensive, all-staff and whole-process risk management system, the Bank strengthened its risk management and operating capabilities to ensure business transformation and upgrading, and resolutely kept the bottom line of staying away from systemic risk. Through active participation in nationwide energy conservation and emission reduction initiatives, the Bank promoted green operation. The Bank also strengthened its team building by promoting talent cultivation in different tiers, improving organizational structure and optimizing the performance evaluation mechanism.

Meanwhile, ready to take initiatives and shoulder its responsibilities, the Bank formulated and implemented the annual social and public welfare scheme and proactively conducted social and public welfare undertakings and charitable activities such as donations and scholarships, so as to convey its love and care and earnestly fulfill its corporate social responsibilities. As a co-sponsor of the “2017 Public Welfare Program of Huishang Bank – Love Spreading over the Yangtze-Huaihe Area”, the Bank donated RMB2 million in 2017 to Anhui Welfare Foundation for the Disabled, which will finance the medical treatment for 1,000 patients with eye diseases and 75 hearing-impaired children.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES

5.13.1 Trend of economic development

1. Global economy

The global economic recovery brings about new opportunities; local risks still need to be watched out. According to economic indicators and high-frequency statistics, the global economic recovery has shifted to a slow rebound period since the second half of 2016, which was driven by certain positive changes in the demand side and non-economic dynamics. With the Brexit process launched and the presidential election of the United States closed, global policy uncertainty has eased significantly, leading to stronger sentiment in corporate investment and residential consumption. As the largest contributor to global economic growth, China's economy has remained resilient and its import has significantly accelerated since 2017, with a growth rate significantly higher than the global average. The global economic recovery is expected to continue into 2018, in view of the aggressive new fiscal and tax initiatives of the Trump administration, more prudent stance of major European and American banks and higher stability of emerging markets. However, the global economic recovery still remain inadequate as it is difficult to remove the long-term supply-side constraints. Firstly, international trade and direct investment are expected to continue to rebound in 2018, thanks to the recovering real economy, progress in multilateral and bilateral cooperation, earnings growth of multinational enterprises, and the active lending activities of financial institutions and financing activities on capital markets. Secondly, the developed economies could see an all-around recovery, yet with muted performance. Economic growth in emerging markets and developing countries should accelerate but see divergence geographically. Thirdly, global inflation should remain low, as commodity markets will stay in supply-demand imbalance without significant upside price pressure, given the less compelling recovery of the real economy and with the global unemployment rate yet to return to the pre-crisis level. Fourthly, in the context of faster economic recovery, central banks of the United States, Canada and the United Kingdom successively tightened monetary policy in 2017. In particular, the Federal Reserve announced a series of interest rate hikes and started the balance sheet runoff plan. Monetary policy shift is expected to become a global trend in 2018, and the turning point towards liquidity tightening will be coming soon.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.1 Trend of economic development (Continued)

2. *Economic development trend in China*

Looking to 2018, the first year for putting the guiding principles from the 19th National Congress of the CPC into action and securing a decisive victory in building a moderately prosperous society in all respects, the transition of the Chinese government will complete along with significantly stronger impetus and willingness from all aspects for faster growth. Marching into a new era, China will speed up the implementation of innovation-driven strategy to fuel the rapid growth of emerging industries and new drivers. The service industry will stay on the fast track, driven by stronger policy incentives and faster non-physical consumption. To “address inadequacies” more effectively, the government will continue to increase investments in poverty alleviation, rural areas and environmental protection. However, the economy will be subject to uncertainties from the real estate market correction, slowdown of traditional drivers, prone-to-tightening financial policy and stricter environmental protection inspections. Amid steady economic growth, more emphases are expected to be placed on quality and efficiency in 2018. Fiscal policy will be more focused on supporting energy conservation and environmental protection, precise poverty alleviation and major projects, while continuing to “close the back door” to prevent local fiscal risks and “open the front door” to improve the local government debt financing mechanism. Monetary policy, together with macro-prudential policy and regulatory policy, will seek to stabilize monetary and credit growths while strengthening regulatory coordination to prevent and control financial risks. On industrial policy, more emphases will be put on optimizing supply structure and improving supply quality; on regional policy, support to the “underdeveloped” areas will be stepped up; on real estate policy, the keynote of strict regulation will remain unchanged with faster implementation of the rental housing policy.

5.13.2 Measures of the Bank

1. *Reshaping the major market participants and deepening and broadening government financial services*

As the bank-government cooperation has entered a new stage, the next focuses for the Bank should be on leveraging market conditions, reshaping market participants, creating innovative models and deepening cooperation, from the perspective of either competitions over fundamental customers and quality assets, or serving the real economy and local governments. Firstly, the Bank will seize the policy opportunities arising from strengthened administration over local government financing vehicles, clarification of the demarcation of responsibilities between the government and enterprises and promotion of market-oriented transformation and restructuring, give full play to its advantages as a local commercial bank, strengthen coordination and communication with local governments and vehicle operators, and support the reshaping of market participants to usher the cooperation into a new phase. Secondly, focusing on balance sheets, the Bank will provide local governments with integrated treasury “housekeeper” service, with an aim of strengthening their treasury management, improving the efficiency in operating and using their funds on hand, meeting their financing needs, and helping them control financing costs and optimize balance sheets.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank (Continued)

2. *Leveraging innovations in product family to make a breakthrough in comprehensive corporate finance services*

Firstly, by engaging with the transaction behaviors of enterprises to predict their needs and focusing on industry and business cyclicalities and transaction links, the Bank will analyze the cash flow profiles of enterprises and integrate logistics, capital and information flows to predict and guide their financial needs, thus providing relevant products and services. By means of transaction banking, the Bank will offer cash management, supply chain finance, and payment and settlement services to enterprises. While offering wealth management services for idle corporate working capital, the Bank will provide information consultancy, investment evaluation, risk analysis, financial management and other value-added services based on the operation profiles of enterprises to improve their comprehensive business viability. Secondly, by actively expanding investment banking business centering on de-leveraging of enterprises and focusing on the special financing needs of customers including provincial enterprises, listed companies, strategic emerging industries and technology start-ups, the Bank will broaden the use of direct financing instruments such as short-term commercial papers and medium-term notes to reduce the asset-liability ratio of enterprises while increasing the lead-underwriting share of the Bank's investment banking business. The Bank will seize the opportunities from investment-loan linkage policies, innovatively synergizing "investment + loan + bond" business arms to effectively meet the financing needs of high-tech enterprises. Meanwhile, the Bank will actively expand its merger and acquisition business and support the province's traditional industrial transformation and upgrading, focusing on the reform of state-owned enterprises, industry consolidation and other buyouts to provide comprehensive financial solutions. Thirdly, by giving full play to the role of the financial market segment in supporting comprehensive corporate finance services, investments in medium-term notes, short-term commercial papers and other debt instruments lead-underwritten by the Bank will be prioritized, needs of quality corporate customers of the Bank will be met on a prioritized basis, and the ratio of investments in the Bank's business lines will be increased to the extent permitted by rules and regulations. While offering comprehensive services to meet corporate financial needs, the Bank will benefit from comprehensive income including intermediate business income, investment income and derived deposits to improve its overall profitability.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank (Continued)

3. *Optimizing the structure of retail asset operations by focusing on consumer finance as a springboard*

To capture the opportunities from the surging total consumption and positive changes in consumption mix, the Bank will address the weaknesses in its consumer finance business by giving priority to prime retail asset operations with attractive liquidity and development potential. Firstly, by quickly expanding and enhancing the traditional consumer credit operations and focusing on basic daily necessities such as “food, clothing, housing and travel”, the Bank will refine its basic consumer credit products, and aggressively strengthen shopping, car, home decoration and other consumer credit products through cooperation with large business circles, dealers, developers and property managers. Secondly, by extending active presence in the new consumer credit segment and focusing on consumer service sectors such as healthcare, elderly services, leisure and travel, culture and education, the Bank will step up product innovation and enrich its consumer credit product family by engaging in consumption scenes through cooperation with medical, pension, tourism and education institutions. Thirdly, by simplifying workflows and optimizing customer experience while giving it top priority, the Bank will attach importance to key steps and risk controls with a focus on big data risk control tools. Starting from active engagement in consumption scenes, the Bank will simplify business process, optimize customer service experience, and gradually build up Huishang Bank’s brand awareness in consumer finance.

4. *Serving the real economy and steadily growing investment business*

Firstly, the Bank will strengthen its asset operation ability and financial product sales ability. On the one hand, the Bank will strengthen its asset operation ability, focusing on government infrastructure construction, industrial upgrading, corporate merger and acquisition and other assets. On the other hand, it will enhance its financial product sales ability by strengthening the synergy among corporate banking, retail banking and interbank operations and among the head office, branches and sub-branches, so as to expand its customer base, especially with a focus on high-net-worth individuals and institutional customers, and broaden the source and utilization of funding. Secondly, the Bank will give full play to the role of interbank operations to seize quality assets and basic customers. On the one hand, centering around the real economy, the Bank will press ahead with cooperation with governments and enterprises, and actively expand quality assets outside of Anhui province to effectively complement the efforts in improving governmental relationship and broadening the scope of business. On the other hand, it will expand non-bank financial institution customers such as financial leasing, consumer finance and trust companies, establishing an “industry alliance” or similar cooperation platforms to cement the cooperation. Thirdly, the Bank will strike a balance between the trading and investment attributes of financial markets. On the one hand, the Bank will sharpen its expertise, taking initiatives to carry out band trades for better gains from price spread and improve its capability in derivatives trades. On the other hand, investment allocation will be diversified to combine active and passive styles in order to optimize the exposure to held-to-maturity, receivable and available-for-sale assets and strengthen the synergy between the financial market business and the Bank’s government and investment banking businesses.

Chapter VI Report of the Board of Directors

The Bank presents the annual report and audited financial statements of the Bank and its subsidiaries for the year ended 31 December 2017.

6.1 PRINCIPAL BUSINESS

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which includes money market activities, investment and trading activities and transactions on behalf of customers.

6.2 PARTICULARS OF BUSINESS

6.2.1 External environment faced by and business and operation development of the Bank

1. *Analysis of the environment of our main operating areas*

Anhui ranks ahead of many other provinces in terms of economic growth, with its key indicators growing faster than the national average. A GDP growth of 8.5% year-on-year was achieved in 2017, which was 1.6 percentage points higher than the national average. The output growth of industries above the designated scale increased by 9%, which was 2.4 percentage points higher than the national average, ranking 6th nationwide and 2nd in central China; and fixed investment increased by 11%, which was 4.8 percentage points higher than the national average. Such achievements can be attributable to efforts made over the last two years to vigorously promote the supply-side structural reform, accelerate the cultivation of strategic emerging industries and actively support the development of high-tech enterprises. In 2017, Anhui further pushed forward the supply-side structural reform and achieved its annual de-capacity targets, reducing excess coal capacity of 7.05 million tonnes/year, pig iron capacity of 620,000 tonnes/year and crude steel capacity of 640,000 tonnes/year during the year. Substantial progress was achieved in de-stocking. As at the end of December 2017, the area of commodity housing for sale decreased by 15.8% year-on-year. As at the end of November 2017, the proportion of finished goods inventories to current assets of industrial enterprises above the designated scale decreased by 0.3 percentage point year-on-year. De-leveraging was steadily pushed forward. As at the end of November 2017, the debt to asset ratio of industrial enterprises above the designated scale decreased by 0.6 percentage point year-on-year. Achievements were made in cost reduction. From January to November 2017, the three expenses per RMB100 of income from the principal business of industrial enterprises above the designated scale decreased by RMB0.2 year-on-year. Investment in sectors for improving weak links continued to increase, and the annual investment in ecological protection and environmental treatment industries in 2017 increased by 41.7%, with the investment in six cities in northern Anhui increasing by 15.4%, significantly higher than the investment growth for the whole province. The growth of new economic drivers expedited, and the output of strategic emerging industries increased by 21.4%, which was 5.3 percentage points higher than the output across all industries. Product output of industrial robots, optical cables, solar cells, optical fibers, new energy vehicles and other emerging industries registered robust growth.

Although such metrics pointed to a relatively sound economy, there are still different voices that imbalances in structural adjustment remain deep-seated, the demand side has not yet recovered to justify the upsides, the real economy cannot afford excessive financing costs, and local debts have unsettlingly overdrawn the investment pool, among other potential risks against economic growth. In the face of both upsides and downsides, the Bank needs to focus on the following aspects:

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

1. *Analysis of the environment of our main operating areas (Continued)*

Firstly, there are potential uncertainties in the supply-side structural reform. The stable real economy has benefited from significant progress in the supply-side structural reform. However, we should note that although capacity reduction helped improve corporate earnings, the rebound in profit growth of industrial enterprises was mainly attributable to upstream enterprises, and the turnaround failed to pass on to the midstream and downstream effectively. Affected by the declining inventory, property sales area growth continued to slow down, which caused a drag on the real estate related consumption sectors (including furniture, home appliances, etc.), indicating a weaker role of real estate and infrastructure investment in driving up the economy. De-leveraging has reduced the leverage in the corporate sector, and turned retail customers into a focus of loan portfolio of banks. Mortgage loans account for approximately 70% of personal loans, and a significant portion of consumer loans have also flowed into the real estate market. The Bank will keep a close eye on whether these uncertainties will further worsen or dominate economic trends.

Secondly, more time and confidence are needed to cultivate new growth drivers. With the progress made in “Mass Entrepreneurship and Innovation”, new drivers are becoming stronger and new growth frontiers are emerging. However, so far new energy vehicles, artificial intelligence, “Internet Plus” and other new sectors are yet to serve as a pillar to economic growth. Amid the rapid paces of “Mass Entrepreneurship and Innovation”, problems have gradually emerged, such as similar innovation models, lack of technically advanced and high-growth products and the lag in system construction for “Mass Entrepreneurship and Innovation”, and the headroom remains in question. In 2017, Anhui’s total retail sales posted an actual growth of 11.9%, a decrease of 0.4 percentage point, suggesting that the economic contribution of consumption upgrade has yet to be further unleashed. For the Bank, more time and confidence are still needed to cultivate these new growth drivers.

Thirdly, environmental protection inspections have a substantial impact on small and medium-sized enterprises in Anhui. The environmental protection inspection scheme, since piloted in Hebei in late 2015, has covered all 31 provinces, autonomous regions and municipalities with stricter enforcement. In Anhui, efforts are taken across the cities to implement rectification opinions of the central environmental protection inspection team, including follow-up, correction and accountability measures. In Bozhou, 98 enterprises with environmental issues were banned and closed down; and in Hefei, efforts were stepped up to rectify the pollution issues caused by the “low-output, small sized, fragmented” enterprises (including workshops) as well as small and micro enterprises below the designated scale. Meanwhile, policy implementation seems to become even more stringent. As production cut for the sake of environmental protection seems to turn into a “competition”, the extent of supply shrinkage is unlikely to fall below expectation.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

1. *Analysis of the environment of our main operating areas (Continued)*

There are divergences in the current critical window for economic structural adjustment, namely the correction in production sector vs. the prosperity in consumption sector, the dilemma in traditional manufacturing vs. the rise of strategic emerging industries, and the stagnant labor-intensive industries vs. the booming innovation fields. While embracing new opportunities from the economic structural adjustment, the Bank still needs to watch out for the potential imbalances arising from a profound structural correction. In 2018, the first year for widely implementing the policies under the 19th National Congress of the CPC, the macro economy should be able to rebound steadily through the year, as the change in major contradictions, which was put forward at the congress as a revolutionary move to China's economic roadmap and priorities, provides vast policy and regime evolution headroom to underpin the future reform and growth efforts.

2. *Business performance of the Bank in 2017*

Facing the complex economic and financial situation in 2017, the Bank, in the firm belief that innovation spurs transformation while management enhances quality and efficiency, focused on developing the financial system consisting of "comprehensive finance, inclusive finance, intelligent finance and safe finance" to actively adapt to the new economy, build a new finance model and facilitate the coordination and healthy and steady development of each business of the Bank.

(1) *Comprehensive finance is continuously bearing fruit*

Aiming to meet the needs of corporate customers in the new situation, the Bank made constant efforts to further develop innovative products and made an integrated use of various financial products in the areas of corporations, investment banks, transaction banks, asset management, inter-banks, custody, international business, retail, e-banking, finance lease and so on. By newly introducing a "1+N" (comprehensive and individualized) financial solution actively, the Bank improved ability to absorb customers and maintain customer loyalty, further deepened the cooperation between the Bank and the government and enterprises, coordinated the wholesale business advantages of the municipal government and government institutions, and promoted the transformation and upgrade of corporate business.

(2) *Promoting inclusive finance*

Actively responding to the national policy of finance benefiting people, the Bank implemented an inclusive finance development strategy. Focusing on online finance, mobile finance and intelligent finance, the Bank made great efforts to promote channel innovation, product innovation, system innovation and management enhancement. It constructed an inclusive urban financial system of urban comprehensive sub-branch, Huimin sub-branch and community/micro-sub-branch, connecting the "last mile" in resident financial services in urban area, thereby satisfying the diversified financial needs of urban residents. It also built a rural inclusive financial brand system covering six major products and channels of "Huinong sub-branch, Huinong Services Room, Huinong Card, Huinong Loan, Huinong Pay and Huinong Pass", and seized the county and rural financial markets. Actively exploring microloan model and developing smart city financial platform, the Bank launched the first targeted poverty alleviation microloan product within the province in response to government's call. Following the plan to "promote card issuance, capture market share, strengthen integration and control risks", the Bank vigorously promoted its credit card brand of "Closest and Happiest" (零距離，滿心意), achieving more than 1 million valid credit cards as at the end of 2017.

Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. *Business performance of the Bank in 2017 (Continued)*

(3) *Intelligent finance is constantly developing*

With the aid of financial technology, the Bank endeavoured to further integrate its business with technology, promoted the smart transformation of new smart self-service terminal outlets, fully optimized various services including online banking, mobile banking and remote banking and innovated a direct banking business model. In accordance with the operational ideology of “getting client from the outside, keeping clients on the inside”, the Bank further explored application scenarios of internet accounts, continued to enrich scenario-based internet consumer financial products, and actively explored a direct banking commercial mode and profit mode. In the various rankings in 2017, the direct banking business of the Bank maintained top 4 amongst nearly a hundred banks engaging in direct banking business across China, and won numerous awards including the “2017 Direct Banking Innovative Application Award”, the “2017 Top Ten Direct Banks Award” and the “2017 Most Influential Direct Bank Award”.

(4) *Effective protection to ensure safe finance*

By establishing a safe finance philosophy of mitigating risk exposures through cause identification and problem solving and through tackling current problems while building risk management system from the long-term perspective, the Bank strengthened its capability to manage and deal with risks and created “safe finance” brand to ensure its steady development. The Bank focused on accountability to strengthen and improve the risk assessment accountability mechanism, conducted comprehensive risk investigation backed by the implementation incentive and punishment measures as well as the investigation and punishment of any breaches and violations, and strengthened the management of employee ethics by adhering to the “zero tolerance” principle against all kinds of risk events. Following the principle of “filling up the vacancy, improving the weaknesses and focusing on sensitive issues”, the Bank remedied deficiencies through the improvement of risk management system, the optimization of risk measuring and monitoring tools and the exploration of new business risk control, thus enhancing its risk management capability and standard and protecting the bottom line.

3. *Analysis of key financial performance indicators during the year*

Key financial data and key regulatory indicators adopted by the Bank reflect the Bank’s operating results, profits and risk control level in 2017. During the Reporting Period, the Bank achieved satisfactory year-on-year performance of all of its financial data, and all of its regulatory indicators met regulatory requirements. See details in Chapter II “Summary of Accounting Data and Business Data” in this annual report.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. *Environmental policy, performance and compliance of laws and regulations*

(1) *Environmental policy and performance of the Bank*

See details in section 5.12 “Management Discussion and Analysis – Social Responsibilities” in this annual report.

(2) *Compliance with laws and regulations by the Bank*

The Bank actively carried out anti-money laundering management, and prevented money laundering activities. Firstly, it formulated and amended the “Management Measures of Huishang Bank for Evaluation of the Risks of Anti-Money Laundering for Products”, “Management Regulations of Huishang Bank for Re-straining Assets Involved in Terrorist Activities”, “Supervisory Measures of Huishang Bank for Anti-Money Laundering Audits”, “Operational Procedures of Huishang Bank for Large-Value and Suspicious Transactions”, “Management Measures of Huishang Bank for Identification and Risk Classification of Customers of Foreign Exchange Business”, and “Management Measures of Huishang Bank for Classification of Overseas Agencies in Anti-Money Laundering” to strengthen the foundations of internal control for anti-money laundering. Secondly, it diligently pressed ahead with the implementation of customer identification measures to stringently safeguard proper customer admittance. The Bank enhanced its risk indicator system for money laundering by customers and dynamically adjusted the risk level of money laundering by customers based on qualitative and quantitative principles. Thirdly, it conducted training on anti-money laundering in different aspects through multiple channels to enhance the awareness of staff in performing anti-money laundering duties and create a conducive environment for compliance with anti-money laundering measures. The Bank actively participated in the publicity activities held in the outdoor piazza on the theme of celebrating the tenth anniversary of the implementation of the “Anti-Money Laundering Law” in Anhui Province, attracting the attention of and well received by the public. To encourage its staff to learn and think about as well as to write and reflect on anti-money laundering laws and regulations, the Bank made arrangements for holding anti-money laundering survey and research competitions in a strive to boost the ability of its staff in performing anti-money laundering duties.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. Environmental policy, performance and compliance of laws and regulations (Continued)

(3) Relationship between the Bank and its employees

a. Remuneration of employees

The remuneration policy of the Bank was designed to facilitate the achievement of strategic operational goals, enhancement of competitiveness, and the nurturing of talent and risk control. The policy aims at developing a comprehensive, scientific and effective incentive and constraint mechanism that maximizes shareholders' value, corporate benefits and employee benefits. It enables the Bank to work its way towards stable operation and sustainable development by adopting advanced, sustainable, lawful, timely and practical management.

b. Staff employment

The Bank has enhanced staff employment management by formulating a standardized set of recruitment criteria and procedure regulating internal recruitment, deployment and other aspects of internal staff management. The Bank has also expanded efforts in recruiting through external channels such as schools, college-graduate village officials, other industry players and headhunters. The Bank has adopted strict procedures in credential checks, written tests, interviews and background checks to ensure that the recruitment process is open, just and fair.

c. Staff training and career development

In 2017, the Bank implemented the training program formulated at the beginning of the year to provide training across the Bank with reference to the skills and competence requirements of staff at different levels and positions with the aim of enhancing their skills and overall qualities and greatly facilitating their career development.

The Bank provided diverse staff training via multiple channels. In 2017, the Bank made full use of the training center, optimized the online training platform and developed the mobile learning platform where staff could receive integrated online and offline training in the forms of video and face-to-face lectures.

The Bank implemented certificate awards activity. In order to further encourage staff to upgrade their skills, the Bank conducted several training incentive activities in 2017, including lecturer contest, selection of excellent students and courses, and certificate awards, to stimulate enthusiasm in learning, thus encouraging staff to continuously improve their qualities, thereby providing continuous intelligence support for business development.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. Environmental policy, performance and compliance of laws and regulations (Continued)

(3) Relationship between the Bank and its employees (Continued)

c. Staff training and career development (Continued)

The Bank has constructed a position sequence system. In 2017, the Bank continually improved the position sequence management by setting up a position sequence system covering all working positions within the Bank, thereby promoting position sequence management for all staff and offering employees a better career path.

(4) Relationship between the Bank and its customers

See details in section 5.9 “Management Discussion and Analysis – Business Operation” in this annual report.

6.2.2 Subsequent events

From 1 January 2018 to the time of publishing the annual results, there has not been any non-financial event that may cause material effects on the results of the Bank.

6.2.3 Future business development trends of the Bank

See details in section 5.13 “Management Discussion and Analysis – Prospects and Measures” in this annual report.

6.2.4 Major risks and uncertainties faced by the Bank

See details in section 5.10 “Management Discussion and Analysis – Risk Management” in this annual report.

6.3 RESERVES

Please refer to the statement of financial position for details of the movements in the reserves of the Bank.

6.4 RESERVES AVAILABLE FOR DISTRIBUTION

Please refer to Note 37 to the financial statements for details of the reserves available for distribution as at 31 December 2017.

6.5 FIXED ASSETS

Please refer to Note 25 to the financial statements for details of movements in the fixed assets of the Bank as of 31 December 2017.

6.6 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

The Bank has not held nor traded shares of other listed companies during the Reporting Period.

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6.7 PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Bank by the Bank or its subsidiaries during the Reporting Period.

6.8 PRE-EMPTIVE RIGHTS

The Articles of Association of the Bank does not provide for pre-emptive rights. There are no pre-emptive rights for the shareholders of the Bank.

6.9 RETIREMENT BENEFITS

Please refer to Note 34 to the financial statements for details of the retirement benefits provided to employees by the Bank.

6.10 MAJOR DEPOSITORS/BORROWERS

The Bank is not dependent too much on a single major depositor/borrower. As of the end of the Reporting Period, the aggregate amount of operating income generated from the five largest depositors/borrowers of the Bank represented an amount not exceeding 30% of the total operating income of the Bank. The directors of the Bank and its connected persons do not have any significant interest in the aforementioned five largest depositors/borrowers.

6.11 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to Chapter VIII "Profile of Directors, Supervisors, Senior Management, Employees and Institutions" in this annual report.

Chapter VI Report of the Board of Directors

6.12 INTERESTS AND SHORT POSITIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 31 December 2017, the directors, supervisors and chief executives of the Bank and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance of Hong Kong or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Hong Kong Listing Rules.

Name	Position	Class of Shares	Status	Number of shares (share) (Long position)	Percentage of related issued shares in the class (%)	Percentage of all issued ordinary shares (%)
Ci Yaping	Director	Domestic Shares	Beneficial Owner	133,451	0.0017	0.0012
Xu Demei ⁽¹⁾	Former Director	Domestic Shares	Beneficial Owner	84,861	0.0011	0.0008
Xu Chongding	Supervisor	Domestic Shares	Beneficial Owner	497,801	0.0063	0.0045
Tang Chuan ⁽¹⁾	Supervisor	Domestic Shares	Beneficial Owner	50,917	0.0006	0.0005
Yang Mianzhi	Supervisor	Domestic Shares	Beneficial Owner	6,012	–	–
Zhou Tong ⁽¹⁾	Former Supervisor	Domestic Shares	Beneficial Owner	167,974	0.0021	0.0015

Note: (1) For details of the position change of Ms. Xu Demei, Mr. Tang Chuan and Ms. Zhou Tong, please refer to “Changes in Directors, Supervisors and Senior Management of the Bank” under section 8.2 of this annual report.

Save as disclosed above, as at 31 December 2017, none of the directors, supervisors and chief executives of the Bank and their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Bank or its associated corporations.

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6.13 DIRECTORS AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the Reporting Period, none of the directors, supervisors of the Bank or their respective spouses or children under the age of 18 years acquired any right by the way of purchase of shares or bonds of the Bank or exercised any such related rights; and none of the Bank or any of its subsidiaries had made any arrangements to enable the directors, supervisors of the Bank or their respective spouses or children under the age of 18 years to obtain such rights in any other body corporate.

6.14 DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors of the Bank had any interest in any business that constitutes or may constitute, directly or indirectly, a competing business of the Bank.

6.15 FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed in this annual report, there are, to the knowledge of the Bank, no other relationships among the directors, supervisors and senior management of the Bank, including financial, business, family or other material relationships.

6.16 DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

During the Reporting Period, no director or supervisor of the Bank (or its connected entities) had any direct or indirect significant interest in any transaction, arrangement or contract of significance entered into by the Bank or any of its subsidiaries. None of the directors and supervisors of the Bank has entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation). During the Reporting Period, none of the Bank or its subsidiaries had any arrangement that enables the directors and supervisors to acquire benefits by acquiring shares in and debentures of companies or any other corporate body.

6.17 PENALTIES AND INVESTIGATIONS OF THE BANK, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, no director, supervisor or senior management of the Bank has been subject to penalties or investigations by competent authorities causing a material impact on the operations of the Bank.

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6.18 CONTINUING CONNECTED TRANSACTIONS

In the ordinary course of business, the Bank provides commercial banking services and products to the public in China, including the Bank's directors, supervisors and/or their respective associates. During the Reporting Period, connected transactions carried out between the Bank and connected persons are conducted under normal commercial principles, which are not superior to the conditions for similar transactions with non-connected persons. The transaction terms are fair and reasonable and in the interests of the Bank and shareholders as a whole. The Bank conducted a series of connected transactions with connected persons (as defined under the Hong Kong Listing Rules) and all these transactions were conducted under normal commercial terms in the ordinary course of business and were exempted from the requirements of reporting, announcement, annual review, circular and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – deposit taking

The Bank takes deposits from its connected persons (including directors, supervisors and/or their respective associates) under normal deposit interest rates and normal commercial terms in the ordinary course of business. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank takes deposits from its connected persons in the ordinary course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions will constitute exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules (namely financial assistance provided by a connected person in the form of deposits placed with an issuer for the benefit of the issuer on normal commercial terms or on terms better to the issuer, where no security over the assets of the issuer is granted in respect of the financial assistance), and thus will be exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including the directors, supervisors and/or their respective associates) in the ordinary course of its business and on normal commercial terms with reference to prevailing market rates. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The loans and credit facilities offered by the Bank to its connected persons are in the ordinary course of its business and are on normal commercial terms and on comparable terms provided to independent third parties. Therefore, these transactions constitute exempted continuing connected transactions under Rule 14A.87 of the Hong Kong Listing Rules, namely, financial assistance provided by an issuer in its ordinary course of business for the benefit of a connected person on normal commercial terms, and will thus be exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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6.18 CONTINUING CONNECTED TRANSACTIONS (Continued)

Commercial banking services in the ordinary course of business – other banking service and products

The Bank provides various commercial banking services and products (including credit/debit cards and WMPs) in the ordinary course of business to its connected persons (including directors, supervisors of the Bank and/or their respective associates) with service fees and charges at normal charging standards and on normal commercial terms and conditions. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

It is expected that the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the annual aggregate service and/or product fees paid to the Bank by a connected person and its associates will not exceed 0.1%. Therefore, these transactions constitute exempted continuing connected transactions pursuant to Rule 14A.76 of the Hong Kong Listing Rules, and will thus be exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Note 47 to the financial statements of this report discloses the related party transactions of the Bank in accordance with the International Accounting Standards. The transactions disclosed therein between the Bank and the following parties constitute the connected transactions of the Bank under the requirements of Chapter 14A of the Hong Kong Listing Rules and part of the continuing connected transactions conducted by the Bank in the ordinary course of business as disclosed in this Chapter, and are exempted from compliance of the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules: Zhongjing Xinhua Asset Investment Management Company Ltd. and Anhui Energy Group Co., Ltd..

6.19 MATERIAL LITIGATION AND ARBITRATIONS

Insofar as the Bank is aware, as of 31 December 2017, the Bank was involved in the following litigation proceeding in its regular course of business: the number of material pending litigation and arbitrations involving the Bank amounted to 30, with a total amount of RMB897 million. Of these pending litigation and arbitration cases, there were a total of 10 pending litigations and arbitrations against the Bank where final judgment has not been obtained, with a total amount of RMB584 million. The Bank made full provisions for doubtful accounts of loans involved in the cases above according to expected losses. None of the cases will have material adverse effect on the Bank's financial position and operating results.

6.20 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

During the Reporting Period, some of the Bank's assets have been pledged to other banks and the Ministry of Finance as pledge in respect of disposal of repurchase agreement and treasury deposits. Apart from that, the Bank has no other asset acquisition, disposal and reorganization outside the ordinary course of business operations.

Please refer to Note 40 to the financial statements for details of the asset pledge of the Bank.

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6.21 USE OF FUNDS BY RELATED PARTIES

During the Reporting Period, neither the major shareholders nor the related parties of the Bank had used any funds of listed companies for non-operating purposes, and no proceeds of public offering had been used in any unfair connected transactions.

6.22 REVIEW OF ANNUAL RESULTS

The financial report of the Bank prepared under International Financial Reporting Standards has been audited by Ernst & Young and a standard audit report with unqualified opinions has been issued. The Bank's Audit Committee has reviewed the results and the financial statements of the Bank for the year ended 31 December 2017.

6.23 PROFIT AND DIVIDENDS

The profit of the Bank for the year ended 31 December 2017 and the Bank's financial position as of that date are set out in the "Consolidated Financial Statements" section of this annual report. In accordance with the resolutions passed at the 2016 annual general meeting held on 22 June 2017, the Bank paid a final cash dividend for 2016 of RMB0.061 per share (including tax) in an aggregate amount of RMB675 million (including tax), to all of its shareholders whose names appeared on the register of members on 4 July 2017.

For 2017 profit distribution plan, the Board of Directors recommends a cash dividend of RMB0.25 (including tax) in an aggregate amount of RMB276 million (including tax) and a bonus issue of 1 bonus share in an aggregate amount of RMB1.105 billion (including tax) for every 10 shares to all shareholders, with a total distribution of RMB1.381 billion (including tax), subject to the approval of the 2017 annual general meeting. The Bank expects to pay the final dividend for 2017 to all shareholders whose names appear on the register of members of the Bank on 7 June 2018 on or before 27 July 2018, and will make further announcements after convening of the general meeting in relation to details of the dividend distribution arrangements. In case of any changes to the above expected dividend distribution date, the Bank will make announcement(s) in a timely manner.

Save for the above dividends, the Board of Directors of the Bank recommends that no special dividends be distributed.

6.24 ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

In order to determine the holders of shares who are eligible to attend and vote at the 2017 annual general meeting to be held on 29 May 2018, the register of members of the Bank will be closed from 29 April 2018 to 29 May 2018, both days inclusive. To be eligible to attend and vote at the 2017 annual general meeting, unregistered holders of H shares of the Bank shall lodge the relevant share transfer documents with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 27 April 2018.

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6.24 ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS (Continued)

In order to determine the holders of shares who are entitled to receive the proposed final dividend for 2017, the register of members of the Bank will also be closed from 2 June 2018 to 7 June 2018, both days inclusive. To be eligible to receive the aforementioned final dividend (subject to the approval of the shareholders), unregistered holders of H shares of the Bank shall lodge the relevant share transfer documents with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 1 June 2018.

6.25 PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Board of Directors, from April 2016 to the Latest Practicable Date, the Bank's H share public float was below 25%, the minimum level as required in Rule 8.08(1)(a) of the Hong Kong Listing Rules. To the knowledge of the Board of Directors, as at the Latest Practicable Date, the Bank's H share public float was approximately 15.65%.

During the Reporting Period, the number of shares of the Bank held by several shareholders of the Bank continued to increase. According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by Shanghai Soong Ching Ling Foundation (上海宋慶齡基金會), Anhui Energy Group Co., Ltd., and each of their affiliates, other public information and relevant information available, from the beginning of the Reporting Period to the Latest Practicable Date, Shanghai Soong Ching Ling Foundation itself and Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua HK"), Wealth Honest Limited and Golden Harbour Investments Management Limited, which are under its control, increased their respective shareholding by 28,174,000 H Shares, 14,784,000 H Shares and 400,000,000 H Shares, respectively, of the Bank; whereas Anhui Energy Group Co., Ltd. has increased its shareholding by 137,104,296 Domestic Shares and 6,709,000 H Shares of the Bank through Anhui Province Wenergy Co., Ltd. and Xing An Holdings Limited, respectively, both of which are under its control. The H Shares of the Bank held by the above shareholders are not considered to be held by the public.

In addition, on 4 January 2018, Zhongjing Xinhua HK intended to acquire 130,000,000 H Shares of the Bank by way of off-exchange trading, the share transfer of which has yet to be completed to date. According to the agreement between Zhongjing Xinhua HK and the vendor(s), as from the execution date of the agreement, Zhongjing Xinhua HK is entitled to exercise all rights of holders of such 130,000,000 H Shares and the vendor(s) undertake(s) to appoint the person(s) designated by Zhongjing Xinhua HK as its (their) proxy(ies) to attend and vote at the relevant general meeting(s) or class meeting(s) to be held by the Bank in accordance with the instructions of Zhongjing Xinhua HK. Accordingly, such 130,000,000 H Shares of the Bank are not considered to be held by the public under Rule 8.24 of the Hong Kong Listing Rules.

According to the Board resolutions, the Bank is actively considering various options so as to restore its public float as soon as practicable, including (i) suggesting the substantial shareholders of the Bank to place down their shares in the Bank; (ii) seeking opportunities to conduct placing of H shares after considering the market conditions in full and with detailed planning; and (iii) proactively seeking for applying for the offering of A shares. For details on the public float of the Bank's H Shares, please refer to the announcements published by the Bank since 11 May 2016 in relation to the public float of the Bank's H shares.

Chapter VI Report of the Board of Directors

6.26 TAX DEDUCTION

6.26.1 Overseas shareholders

According to the “Notice on the Collection of Personal Income Tax after the Expiration of National Tax Bureau Notice [1993] No. 045” (Guo Shui Han [2011] No. 348), which was released by the State Administration of Taxation on 28 June 2011, the responsible party should withhold personal income tax by law from overseas resident individual shareholders on their dividend income deriving from shares in domestic non-foreign invested companies issued in Hong Kong. However, the overseas resident individual shareholders who hold shares of domestic non-foreign invested companies issued in Hong Kong may be entitled to the relevant favorable tax treatments based on the tax treaties between the countries in which they are domiciled and China and the tax arrangements between Mainland China and Hong Kong (or Macau).

Based on the tax regulation mentioned above, the Bank will withhold personal income tax of the dividend at 10% tax rate for the overseas individual H shareholders. However, where there are different requirements otherwise specified in relevant tax regulations and tax agreements, the Bank will follow such requirements of the tax authorities.

The Bank will withhold 10% enterprise income tax of the dividend for non-resident corporate overseas H shareholders based on the “Law of the People’s Republic of China on Enterprise Income Tax” and relevant implementation rules which have been effective since 1 January 2008.

If the overseas H shareholders of the Bank have any queries regarding the tax arrangements mentioned above, please consult your tax consultants regarding the tax implications in Mainland China, Hong Kong and other countries (regions) for holding and disposing the Bank’s H shares.

6.26.2 Mainland’s shareholders of Shanghai-Hong Kong stock connect and Shenzhen-Hong Kong stock connect

Pursuant to the “Notice on the Tax Policies Concerning the Pilot Program of the Shanghai-Hong Kong Stock Connect” (Cai Shui [2014] No. 81) and the “Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect” (Cai Shui [2016] No. 127), which were jointly released by the Ministry of Finance, the State Administration of Taxation and the CSRC on 31 October 2014 and 5 November 2016, respectively, for dividends obtained by the mainland individual investors from H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such H-share companies shall apply to China Securities Depository and Clearing Corporation Limited (hereinafter referred to as the “CSDC”) for providing the register of mainland individual investors and withhold personal income tax at 20% tax rate from mainland individual investors. While for dividends obtained by the mainland individual investors from non-H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the CSDC will withhold personal income tax at 20% tax rate. Individual investors may, by producing valid tax payment certificates, apply to the competent tax authority under the CSDC for tax credit relating to the withholding tax already paid abroad.

For dividend income obtained by the mainland security investment funds from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, personal income tax shall be withheld according to the above regulations.

Chapter VI Report of the Board of Directors

6.26 TAX DEDUCTION (Continued)

6.26.2 Mainland's shareholders of Shanghai-Hong Kong stock connect and Shenzhen-Hong Kong stock connect (Continued)

For dividend income obtained by the mainland corporate investors from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such income shall be included in their total revenue and enterprise income tax shall be withheld by law. Meanwhile, for dividend income obtained by mainland resident enterprises from holding H shares for 12 consecutive months, enterprise income tax shall be exempted by law. H-share companies listed on Hong Kong Stock Exchange shall apply to the CSDC for providing the register of the mainland enterprise investors. The H-share companies shall not withhold income tax of dividends for mainland enterprise investors and such investors shall declare and pay relevant tax themselves.

6.27 PERMITTED INDEMNITY PROVISIONS

The Bank has maintained appropriate director liability insurance to indemnify the directors for liabilities arising from corporate affairs.

6.28 DONATION

In 2017, the Bank donated RMB2 million to the "Regaining Eyesight Program (復明工程)" and "Caring Snail (愛心蝸牛)" under the Love Spreading over the Yangtze-Huaihe Area. Among others:

1. Project amounts: RMB1 million was donated to the "Regaining Eyesight Program", mainly applied as subsidy of the self-paid portion for surgery and rehabilitation by patients with eye diseases, except for those covered by various rural cooperative medical insurance and medical insurance, and the standard is RMB1,000 per person per time; RMB0.9 million was donated to the "Caring Snail", mainly applied as subsidy of rehabilitation training for hearing-impaired children with disabilities, and the standard is RMB12,000 per person; and in order to ensure the smooth operation of the projects, RMB100,000 was donated as the project administration funds and would be charged by the Anhui Foundation for Disabled Persons based on its actual use.
2. Project details: According to the preliminary negotiation between the parties, "Regaining Eyesight Program" will be implemented in Si County, Suzhou City and Wuwei County, Wuhu City, while the "Caring Snail" will be implemented in Lu'an City and Fuyang City, among which Jinzhai County, Lu'an city must achieve full coverage.

6.29 MANAGEMENT CONTRACTS

Except for the service contracts of the management of the Bank, the Bank did not enter into any other contract with any individual, company or body corporate to manage or deal with the whole part or any significant part of the Bank's business.

6.30 STOCK-LINKED AGREEMENTS

The Bank did not enter into any other stock-linked agreement in 2017, and there was no stock-linked agreement remaining effective by the end of 2017.

Chapter VI Report of the Board of Directors

6.31 ISSUE OF DEBENTURES

To expand the sources of liabilities of the Bank to enhance the maturity matching of assets and liabilities, the Bank issued various types of debentures, the details of which are presented as follows:

6.31.1 The Bank issued RMB4 billion of 2011 subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Bank has an option to redeem all of this tranche of bonds at face value on the last day of the tenth year of interest accrued of this tranche of bonds.

Claims on subordinated debts are posterior to other liabilities but prior to the Bank's share capital. From 1 January 2013, they are qualified for inclusion as tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks".

6.31.2 The Bank issued RMB2.2 billion of small and micro enterprises financial bonds on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.5%, paid annually.

6.31.3 The Bank issued RMB3.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.15%, paid annually.

6.31.4 The Bank issued RMB0.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.

6.31.5 The Bank issued RMB8.0 billion of tier 2 capital bonds on 11 September 2015 in China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Bank has an option to redeem part or all of these bonds at face value on last day of the fifth year of interest accrued of this tranche of bonds, subject to the approval from relevant regulatory authorities. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary creditors and is superior to equity, other tier 1 capital instruments and mixed capital debts.

6.31.6 The Bank issued RMB3.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.9%, paid annually.

6.31.7 The Bank issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.1%, paid annually.

6.31.8 The Bank issued RMB7.0 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.

6.31.9 The Bank issued RMB3.0 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.

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6.31 ISSUE OF DEBENTURES (Continued)

6.31.10 The Bank issued RMB1 billion of green financial bonds on 8 September 2017 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.49%, paid annually.

6.31.11 In 2017, the Bank issued 225 zero-coupon interbank certificates of deposit in total face value of RMB253.09 billion, with maturities ranging from one month to one year, and also issued 2 floating-rate interbank certificates of deposit in total face value of RMB300 million, with a maturity of three years. As at 31 December 2017, the aggregate face value of undue certificates of deposit issued amounted to RMB83.25 billion.

By order of the Board

Wu Xuemin

Executive Director and Acting Chairman

23 March 2018

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.1 CHANGES IN ORDINARY SHARES OF THE BANK DURING THE REPORTING PERIOD

	31 December 2017		Changes during the Reporting Period	31 December 2016	
	Number of shares	Percentage (%)	Number of shares	Number of shares	Percentage (%)
Domestic Shares	7,887,319,283	71.38	0	7,887,319,283	71.38
H Shares	3,162,500,000	28.62	0	3,162,500,000	28.62
Total number of ordinary shares	11,049,819,283	100	0	11,049,819,283	100

Note: As at the end of the Reporting Period, the Bank had a total of 18,024 shareholders, including 1,707 shareholders of H Shares and 16,317 shareholders of Domestic Shares.

7.2 INFORMATION ON THE SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

The top ten shareholders of the Bank are ranked according to the following: (1) H shareholders are ranked based on the number of the shares held by HKSCC Nominees Limited, representing the total number of shares in the accounts of H shareholders of the Bank held by HKSCC Nominees Limited on their behalf and dealt on its trading platform, accounting for 28.58% of the total share capital of ordinary shares and 99.87% of the total issued H Shares; and (2) domestic shareholders are ranked from highest to lowest based on the number of the shares directly held by domestic shareholders whose names are on the domestic shareholders' register of China Securities Depository and Clearing Company Limited.

No.	Name of shareholder	Nature of shareholder	Number of shares held as at the end of the Reporting Period	Percentage to total share capital of ordinary shares (%)	Type of shares	Increase/decrease during the Reporting Period (shares)	Pledged or frozen (shares)
1	HKSCC Nominees Limited	⁽¹⁾	3,158,411,980	28.58	H Shares	358,000	⁽¹⁾
2	Anhui Energy Group Co., Ltd.	Stated-owned legal person	766,694,381	6.94	Domestic Shares	0	0
3	Anhui Credit Guaranty Group Co., Ltd.	Stated-owned legal person	752,416,446	6.81	Domestic Shares	0	376,208,200
4	Anhui Guoyuan Holding (Group) Co., Ltd.	Stated-owned legal person	645,388,876	5.84	Domestic Shares	0	0
5	Anhui Transportation Holding Group Co., Ltd.	Stated-owned legal person	469,032,613	4.24	Domestic Shares	0	0
6	Zhongjing Sihai Co., Ltd.	Domestic non-stated-owned legal person	444,696,160	4.02	Domestic Shares	0	0
7	Hefei Xingtai Financial Holding Group Co., Ltd.	Stated-owned legal person	343,591,483	3.11	Domestic Shares	0	0
8	Wuhu Construction Investment Co., Ltd.	Stated-owned legal person	267,284,394	2.42	Domestic Shares	0	0
9	CCB Trust Co., Ltd.	Stated-owned legal person	225,548,176	2.04	Domestic Shares	0	0
10	Zhongjing Xinhua Asset Investment Management Company Ltd.	Domestic non-stated-owned legal person	204,346,570	1.85	Domestic Shares	0	44,000,000

Note:

- (1) The relevant information has not yet been obtained by the Bank, or it cannot be verified based on the existing information.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS

As at 31 December 2017, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO").

Name of shareholder	Type of shares	Long/short position	Capacity	Number of shares	Percentage of the relevant type of shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Anhui Energy Group Co., Ltd.	H Shares	Long	Interest of controlled corporation	300,145,000	9.49	2.72	1
	Domestic Shares	Long	Interest of controlled corporation	137,104,296	1.74	1.24	1
Xing An Holding Co., Limited	Domestic Shares	Long	Beneficial owner	766,694,381	9.72	6.94	
	H Shares	Long	Beneficial owner	300,145,000	9.49	2.72	1
Anhui Credit Guaranty Group Co., Ltd.	Domestic Shares	Long	Beneficial owner	752,416,446	9.54	6.81	
Anhui Guoyuan Holding (Group) Co., Ltd.	Domestic Shares	Long	Interest of controlled corporation	149,087,330	1.89	1.35	2
	Domestic Shares	Long	Beneficial owner	645,388,876	8.18	5.84	
Anhui Transportation Holding Group Co., Ltd.	H Shares	Long	Interest of controlled corporation	4,327,000	0.14	0.04	3
	Domestic Shares	Long	Beneficial owner	469,032,613	5.95	4.24	
China Vanke Co., Ltd.	H Shares	Long	Interest of controlled corporation	883,986,000	27.95	8.00	4
Wkland Finance Holding Company Limited	H Shares	Long	Beneficial owner	511,140,000	16.16	4.63	4
Wkland Finance Holding II Company Limited	H Shares	Long	Beneficial owner	372,846,000	11.79	3.37	4
Sunshine Insurance Group Corporation Limited	H Shares	Long	Interest of controlled corporation	543,722,000	17.19	4.92	5
Sunshine Life Insurance Corporation Limited	H Shares	Long	Beneficial owner	543,722,000	17.19	4.92	5
Shanghai Soong Ching Ling Foundation	H Shares	Long	Interest of controlled corporation	993,262,000	31.41	8.99	8, 9, 10
	Domestic Shares	Long	Interest of controlled corporation	649,042,730	8.23	5.87	6, 7
Zhongjing Industry (Group) Co., Limited	H Shares	Long	Interest of controlled corporation	993,262,000	31.41	8.99	8, 9, 10
	Domestic Shares	Long	Interest of controlled corporation	649,042,730	8.23	5.87	6, 7
Modern Innovation Holding Co., Limited	H Shares	Long	Interest of controlled corporation	993,262,000	31.41	8.99	8, 9, 10
	Domestic Shares	Long	Interest of controlled corporation	649,042,730	8.23	5.87	6, 7
Jing'An Shanghai Silver Investment Co., Ltd.	H Shares	Long	Interest of controlled corporation	993,262,000	31.41	8.99	8, 9, 10
	Domestic Shares	Long	Interest of controlled corporation	649,042,730	8.23	5.87	6, 7

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Name of shareholder	Type of shares	Long/short position	Capacity	Number of shares	Percentage of the relevant type of shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Zhongjing Xinhua Asset Investment Management Company Ltd.	H Shares	Long	Interest of controlled corporation	993,262,000	31.41	8.99	8, 9, 10
	Domestic Shares	Long	Interest of controlled corporation	444,696,160	5.64	4.02	7
	Domestic Shares	Long	Beneficial owner	204,346,570	2.59	1.85	6
Zhongjing Sihai Co., Ltd.	Domestic Shares	Long	Beneficial owner	444,696,160	5.64	4.02	7
Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	H Shares	Long	Interest of controlled corporation	874,672,000	27.66	7.92	9, 10
	H Shares	Long	Beneficial owner	118,590,000	3.75	1.07	8
Wealth Honest Limited	H Shares	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
	H Shares	Long	Beneficial owner	474,672,000	15.01	4.30	9
Wealth Honest Cayman Holdings Company Limited	H Shares	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
Qingdao State-owned Assets Supervision & Administration Commission (青島市國有資產管理委員會)	H Shares	Long	Security interest	400,000,000	12.65	3.62	10
Qingdao City Construction Investment (Group) Limited (青島城市建設投資(集團)有限責任公司)	H Shares	Long	Security interest	400,000,000	12.65	3.62	10
Qingdao City Construction Financial Holding Group Co., Ltd. (青島城投金融控股集團有限公司)	H Shares	Long	Security interest	400,000,000	12.65	3.62	10
China Golden Harbour (Holdings) Group (中國金港(控股)集團有限公司)	H Shares	Long	Security interest	400,000,000	12.65	3.62	10
Golden Harbour Global Holdings Limited (金港國際控股有限公司)	H Shares	Long	Security interest	400,000,000	12.65	3.62	10
Wealth Honest Fund LP	H Shares	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
Golden Harbour Investments Management Limited	H Shares	Long	Beneficial owner	400,000,000	12.65	3.62	10
CITIC Securities Company Limited	H Shares	Long	Interest of controlled corporation	288,337,500	9.12	2.61	11
	H Shares	Short	Interest of controlled corporation	288,337,500	9.12	2.61	11

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Notes:

- (1) Xing An Holdings Limited holds 300,145,000 H Shares (long position) of the Bank. Xing An Holdings Limited is a wholly-owned subsidiary directly controlled by Anhui Energy Group Co., Ltd.. As such, Anhui Energy Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Xing An Holdings Limited.

Anhui Energy Group Co., Ltd. holds 766,694,381 Domestic Shares (long position) of the Bank. In addition, as shown in the disclosure of interests forms submitted to the Hong Kong Stock Exchange by Anhui Energy Group Co., Ltd. and relevant information provided by stock depositories, Anhui Province Wenergy Co., Ltd. (安徽省皖能股份有限公司), its controlling subsidiary, has completed the transfer formalities in relation to its purchase of 137,104,296 Domestic Shares of the Bank during the Reporting Period. Anhui Energy Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Province Wenergy Co., Ltd..

- (2) The shareholdings of Anhui Guoyuan Holding (Group) Co., Ltd. include the Domestic Shares of the Bank held by its subsidiaries, including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. (安徽國元馬鞍山投資管理有限責任公司), Anhui Guoyuan Trust Co., Ltd. (安徽國元信託有限責任公司) and Guoyuan Securities Co., Ltd. (國元證券股份有限公司).

- (3) Anhui Transportation Holding Group (H.K.) Limited (安徽省交通控股集團(香港)有限公司) holds 4,327,000 H Shares (long position) of the Bank. Anhui Transportation Holding Group (H.K.) Limited is a wholly-owned subsidiary directly controlled by Anhui Transportation Holding Group Co., Ltd. As such, Anhui Transportation Holding Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Transportation Holding Group (H.K.) Limited. At the same time, Anhui Transportation Holding Group Co., Ltd. holds 469,032,613 Domestic Shares (long position) of the Bank.

- (4) China Vanke Co., Ltd. is deemed to be interested in a total of 883,986,000 H Shares (long position) of the Bank by virtue of its control over the following corporations which hold direct interests in the Bank:

4.1 Wkland Finance Holding Company Limited holds 511,140,000 H Shares (long position) of the Bank. Wkland Finance Holding Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.

4.2 Wkland Finance Holding II Company Limited holds 372,846,000 H Shares (long position) of the Bank. Wkland Finance Holding II Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.

- (5) Sunshine Life Insurance Corporation Limited holds 543,722,000 H Shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a subsidiary directly controlled by Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited is deemed to be interested in the shares of the Bank held by Sunshine Life Insurance Corporation Limited.

- (6) Zhongjing Xinhua Asset Investment Management Co., Ltd. ("Zhongjing Xinhua") directly holds 204,346,570 Domestic Shares (long position) of the Bank. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Shanghai Silver Investment Co., Ltd. ("Jing'An Silver"). Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation Holdings Co., Limited ("Modern Innovation"). Modern Innovation is a subsidiary directly controlled by Zhongjing Industry (Group) Limited ("Zhongjing Industry"). Zhongjing Industry is a subsidiary directly controlled by Shanghai Soong Ching Ling Foundation ("SCL Foundation"). As such, SCL Foundation, Zhongjing Industry, Modern Innovation and Jing'An Silver are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (7) Zhongjing Sihai Co., Ltd. ("Zhongjing Sihai") holds 444,696,160 Domestic Shares (long position) of the Bank. It is a subsidiary directly controlled by Zhongjing Xinhua. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Sihai.
- (8) Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua Hong Kong") holds 118,590,000 H Shares (long position) of the Bank. Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Silver. Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation. Modern Innovation is a subsidiary directly controlled by Zhongjing Industry. Zhongjing Industry is a subsidiary directly controlled by SCL Foundation. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua Hong Kong.
- (9) Wealth Honest Limited ("Wealth Honest") holds 474,672,000 H Shares (long position) of the Bank. Wealth Honest is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua Hong Kong. Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Silver. Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation. Modern Innovation is a subsidiary directly controlled by Zhongjing Industry. Zhongjing Industry is a subsidiary directly controlled by SCL Foundation. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua and Zhongjing Xinhua Hong Kong are deemed to be interested in the shares of the Bank held by Wealth Honest.
- (10) According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by Golden Harbour Investments Management Limited ("Golden Harbour") and its affiliates, Golden Harbour acquired 400,000,000 H Shares of the Bank by way of off-exchange trading on 21 January 2017, the settlement of which was completed during the Reporting Period.

The Bank was further informed by Zhongjing Xinhua by email that Wealth Honest Fund LP (a limited partnership established in the Cayman Islands) holds 100% equity interests in Golden Harbour; and Wealth Honest Cayman Holdings Company Limited (a direct wholly-owned subsidiary of Wealth Honest) is the sole general partner of Wealth Honest Fund LP and has absolute control over the operations of the partnership. Accordingly, Wealth Honest can 100% indirectly control Golden Harbour. For information about Wealth Honest, please refer to note (9) above. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua, Zhongjing Xinhua Hong Kong, Wealth Honest, Wealth Honest Cayman Holdings Company Limited and Wealth Honest Fund LP are deemed to be interested in the shares of the Bank held by Golden Harbour.

According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by the State-owned Assets Supervision and Administration Commission of Qingdao City and its subsidiaries, Golden Harbour Global Holdings Limited, a wholly-owned subsidiary directly controlled by China Golden Harbour (Holdings) Group, holds 70% equity interests in Wealth Honest Fund LP; China Golden Harbour (Holdings) Group is a wholly-owned subsidiary directly controlled by Qingdao City Construction Financial Holding Group Co., Ltd.; Qingdao City Construction Financial Holding Group Co., Ltd. is a wholly-owned subsidiary directly controlled by Qingdao City Construction Investment (Group) Limited; Qingdao City Construction Investment (Group) Limited is wholly-owned by the State-Owned Assets Supervision & Administration Commission of Qingdao City. The State-owned Assets Supervision and Administration Commission of Qingdao City, Qingdao City Construction Investment (Group) Limited, Qingdao City Construction Financial Holding Group Co., Ltd., China Golden Harbour (Holdings) Group and Golden Harbour Global Holdings Limited own security interest in 400 million H Shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (11) CITIC Securities Company Limited is deemed to be interested in 288,337,500 H Shares (long position) and 288,337,500 H Shares (short position) of the Bank as it has control over the following corporations that are directly interested in the shares of the Bank:
- 11.1 CSI Capital Management Limited is interested in 288,337,500 H Shares (long position) and 52,425,000 H Shares (short position) of the Bank. CSI Capital Management Limited is a wholly-owned subsidiary indirectly controlled by CITIC Securities Company Limited.
 - 11.2 CSI Financial Products Limited is interested in 235,912,500 H Shares (short position) of the Bank. CSI Financial Products Limited is a wholly-owned subsidiary indirectly controlled by CITIC Securities Company Limited.

These equities are all interests of derivatives, 288,337,500 H Shares (long position) and 288,337,500 H Shares (short position) of which belong to listed derivatives – convertible instruments and listed derivatives – cash-settled, respectively.

Save as disclosed above, the Bank is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) having any interests or short positions in the shares and underlying shares of the Bank as at 31 December 2017 as recorded in the register required to be kept by the Bank pursuant to section 336 of the SFO.

7.4 INITIAL PUBLIC OFFERING OF A SHARES

The 2014 annual general meeting was convened by the Bank on 29 May 2015, at which, among others, the proposal for initial public offering of A shares was considered and approved. The Bank proposed to issue no more than 1.228 billion A shares. Relevant resolutions regarding the A Share Offering Plan and the authorizations granted to the Board to deal with specific matters related to the A Share Offering were approved by the shareholders at the 2015 and 2016 annual general meetings of the Bank and consent to extend the validity periods of such resolutions was obtained. Currently, the validity periods of such resolutions have been extended to 27 May 2018.

On 12 February 2018, the Bank published the Announcement Regarding the Withdrawal of the Application for the A Share Offering. As further negotiations with some of the Bank's directors and shareholders on certain matters stipulated by relevant laws and regulations and requests of the CSRC were still needed, the Bank decided to withdraw the application for the A Share Offering after careful studies and discussion with the professional parties involved in the Bank's application for the A Share Offering and the decision had been considered and approved by the Board. The CSRC decided to terminate the review of the Bank's application for A Share Offering on 5 March 2018.

The Bank is operating well and therefore the withdrawal of the application for the A Share Offering will not result in a material adverse impact on the Bank's financial position or operation. The Bank will actively seek to resume the application for the A Share Offering.

For details of the Bank's A Share Offering, please refer to the Bank's announcements dated 6 May 2015, 29 June 2015, 24 September 2015, 28 March 2016, 27 March 2017, 18 April 2017, 26 December 2017 and 12 February 2018 and circulars dated 13 May 2015, 11 April 2016 and 5 May 2017.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.5 NON-PUBLIC OFFERING OF OFFSHORE PREFERENCE SHARES

7.5.1 ISSUANCE AND LISTING OF PREFERENCE SHARES IN THE RECENT THREE YEARS

On 10 November 2016, the Bank issued 44,400,000 Offshore Preference Shares on the offshore market through non-public offering at the issue price of US\$20 per share and raised US\$888 million. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 11 November 2016. After deducting the issue expenses, the Bank applied all the proceeds raised from the issuance of Offshore Preference Shares to replenish its additional tier 1 capital according to applicable laws and regulations and the approval from relevant regulatory authorities.

7.5.2 NUMBER OF HOLDERS OF PREFERENCE SHARES AND THEIR SHAREHOLDINGS

As at the end of the Reporting Period, the Bank recorded one holder of preference shares (or depository). Particulars of its shareholding are presented as follows:

Name of holder of preference shares	Nature of shareholder	Type of shares	Increase/decrease during the Reporting Period	Shareholding percentage (%)	Total number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
DB Nominees (Hong Kong) Limited	Foreign legal person	Offshore Preference Shares	-	100	44,400,000	-	Unknown

Notes:

1. Particulars of the shareholding of the holder of preference shares are based on the information in the Bank's register of holders of preference shares.
2. As the issuance was an offshore non-public offering, the register of holders of preference shares presented information on the preference shares held by DB Nominees (Hong Kong) Limited as the depository on behalf of the placee in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. as at the end of the Reporting Period.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.5 NON-PUBLIC OFFERING OF OFFSHORE PREFERENCE SHARES (Continued)

7.5.3 PROFIT DISTRIBUTION OF PREFERENCE SHARES

The Board of Directors of the Bank passed a resolution on 25 August 2017 for distribution of dividends to holders of preference shares according to the requirements of relevant laws and regulations, the Articles of Association and the terms and conditions on preference shares issuance. The total dividends of such preference shares paid amounted to US\$54,266,666.67, of which US\$48,840,000 was actually paid to the holder of preference shares at the coupon rate of 5.5%; and US\$5,426,666.67 was withheld and paid as income tax at a rate of 10% according to the requirements of relevant laws. The dividend payment date was 10 November 2017. The interest period was from 10 November 2016 (inclusive) to 10 November 2017 (exclusive). Recipients were persons registered on the register of holders of preference shares as at the close of business of such clearing systems on 9 November 2017. For details, please refer to the announcement of the Bank dated 25 August 2017.

On 10 November 2017, the Bank completed the first payment of dividends after the issuance of Offshore Preference Shares.

7.5.4 REDEMPTION OR CONVERSION OF PREFERENCE SHARES

During the Reporting Period, there was no redemption or conversion of preference shares issued by the Bank.

7.5.5 RESTORATION OF VOTING RIGHTS OF PREFERENCE SHARE

During the Reporting Period, there was no restoration of voting rights of preference shares issued by the Bank.

7.5.6 ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES AND GROUNDS

Pursuant to the requirements of Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments and Provisions on the Distinction between Financial Liabilities and Equity Instruments and the Relevant Accounting Treatment promulgated by the Ministry of Finance as well as International Accounting Standard 39 Financial Instruments: Recognition and Measurement and International Accounting Standard 32 Financial Instruments: Presentation formulated by the International Accounting Standards Board, the terms of the preference shares issued by the Bank and outstanding conform to the accounting requirements for equity instruments, and are accounted for as equity instruments.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name of current directors	Gender	Date of birth	Position held	Start of term of office ⁽¹⁾	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽²⁾
Wu Xuemin	Male	February 1968	Executive Director, Acting Chairman and President	10 July 2013	58.6
Ci Yaping	Male	May 1959	Vice President, Executive Director	10 July 2013	49.0
Zhang Feifei	Male	June 1959	Non-Executive Director	10 July 2013	–
Zhu Jiusheng	Male	March 1969	Non-Executive Director	8 October 2014	–
Qian Li	Male	March 1974	Non-Executive Director	13 July 2015	–
Lu Hui	Female	July 1961	Non-Executive Director	13 July 2015	–
Zhao Zongren	Male	February 1956	Non-Executive Director	8 October 2014	–
Qiao Chuanfu	Male	August 1959	Non-Executive Director	13 July 2015	–
Gao Yang	Male	June 1966	Non-Executive Director	10 July 2013	–
Dai Genyou	Male	December 1949	Independent Non-Executive Director	10 July 2013	9.0
Wang Shihao ⁽³⁾	Male	April 1950	Independent Non-Executive Director	10 July 2013	7.5
Zhang Shenghuai	Male	June 1962	Independent Non-Executive Director	10 July 2013	8.7
Au Ngai, Daniel	Male	October 1968	Independent Non-Executive Director	10 July 2013	6.3
Zhu Hongjun ⁽³⁾	Male	January 1976	Independent Non-Executive Director	8 October 2014	8.7

Name of current Supervisor	Gender	Date of birth	Position held	Start of term of office ⁽¹⁾	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽²⁾
Zhang Renfu	Male	March 1962	Employee Supervisor, Chairman of the Board of Supervisors	8 January 2016 15 January 2016	58.1
Xu Chongding	Male	November 1957	Employee Supervisor, former Chairman of Labor Union	10 July 2013	156.8
Tang Chuan ⁽⁴⁾	Male	November 1962	Employee Supervisor, General Manager of the Human Resources Department	6 March 2018	–
Cheng Rulin	Male	August 1963	Shareholder Supervisor	10 July 2013	–
Li Ruifeng ⁽⁴⁾	Male	February 1970	Shareholder Supervisor	22 June 2017	–
Cheng Junpei	Female	October 1963	External Supervisor	10 July 2013	7.9
Pan Shujuan	Female	October 1955	External Supervisor	10 July 2013	8.8
Yang Mianzhi ⁽⁴⁾	Male	July 1969	External Supervisor	22 June 2017	4.3

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Name of current senior management	Gender	Date of birth	Position held	Start of term of office ⁽¹⁾	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽²⁾
Gao Guangcheng	Male	January 1964	Vice President	10 July 2013	48.4
Zhang Youqi	Male	October 1965	Vice President	10 July 2013	48.4
Sheng Hongqing	Male	July 1971	Assistant to President	17 March 2015	201.7
Yi Feng	Male	August 1963	Assistant to President and Secretary to the Board of Directors	10 July 2013 13 July 2015	156.7
Xia Min	Male	April 1971	Assistant to President and President of Hefei Branch of the Bank	10 July 2013	189.5
Chen Hao	Male	July 1958	Chief Information Officer	10 December 2014	201.7

Name of resigned personnel	Gender	Date of birth	Position held	Term of office ⁽¹⁾	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽²⁾
Li Hongming ⁽⁴⁾	Male	September 1957	Former Chairman, Executive Director	10 July 2013 – 12 December 2017	59.2
Xu Demei ⁽⁴⁾	Female	November 1956	Former Vice Chairman, Executive Director	10 July 2013 – 1 March 2017	26.2
Fung Weichang ⁽⁴⁾	Male	February 1948	Former Independent Non-executive Director	8 October 2014 – 20 March 2017	1.5
Qian Xiaojun ⁽⁴⁾	Male	December 1957	Former Shareholder Supervisor	30 June 2014 – 29 December 2017	–
Zhou Tong ⁽⁴⁾	Female	September 1965	Former Employee Supervisor, General Manager of the Compliance Department	23 August 2014 – 6 March 2018	151.2
Fan Libo ⁽⁴⁾	Male	September 1964	Former External Supervisor	10 July 2013 – 22 June 2017	–
Yan Dongshun ⁽⁴⁾	Male	August 1963	Former Assistant to President and President of Nanjing Branch of the Bank	10 July 2013 – 13 February 2017	16.8

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Notes:

- (1) The term of office of the third session of the Board of Directors, Board of Supervisors and senior management has expired on 10 July 2016. As, among others, nomination process for part of directors nominated by shareholders has not yet been completed and candidates for part of directors are still in selection process, the Bank could not complete the re-election work before the expiration of the third session of Board of Directors. The current directors, supervisors and senior management will continue to fulfill their corresponding responsibilities until the re-election work is completed.
- (2) Pursuant to the requirements of the relevant PRC authorities, the remuneration payable to the executive directors, employee supervisors and senior management of the Bank above is still subject to final confirmation. Further disclosure will be made after the confirmation of the final remuneration. The total remuneration before tax from the Bank during the Reporting Period includes the “five insurances and housing provident fund” and the portion of corporate contribution to enterprise annuity.
- (3) Due to their desire to devote more time to other business commitments, Mr. Wang Shihao and Mr. Zhu Hongjun, each an independent non-executive Director, have tendered their resignation to the Bank. Mr. Wang Shihao would resign as an independent non-executive Director, a member and chairman of the Risk Management Committee and a member of the Strategic Development Committee of the Bank; and Mr. Zhu Hongjun would resign as an independent non-executive director, a member and chairman of Audit Committee and a member of the Related Party Transaction Control Committee of the Bank. The resignation of the two independent non-executive directors mentioned above would take effect from the date of formal appointment of their succeeding independent non-executive directors by the Bank. For details, please see the announcements of the Bank dated 16 December 2015 and 7 April 2016 respectively.
- (4) For details of changes in duties and positions held by Mr. Li Hongming, Ms. Xu Demei, Mr. Fung Weichang, Mr. Qian Xiaojun, Mr. Tang Chuan, Ms. Zhou Tong, Mr. Li Ruifeng, Mr. Yang Mianzhi, Mr. Fan Libo and Mr. Yan Dongshun, please refer to “Changes in Directors, Supervisors and Senior Management of the Bank” under section 8.2 of this annual report.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

1. The Bank made an announcement on 9 November 2015 that, due to his other job commitments, Mr. Fan Libo tendered his resignation on the date of the announcement to resign his duties as external supervisor. His resignation has taken effect upon the formal appointment of Mr. Yang Mianzhi as succeeding external supervisor by the Bank on 22 June 2017. Mr. Fan would also cease to be the chairman of the Supervisory Committee of the Board of Supervisors with immediate effect.
2. The Bank made an announcement on 23 May 2016 that, due to his desire to devote more time to his other business commitments, Mr. Fung Weichang, an independent non-executive director of the Bank, tendered his resignation as an independent non-executive director, a member of the Strategic Development and Consumer Rights Protection Committee and a member of the Nomination and Remuneration Committee of the Bank. His resignation would originally come into effect from the date of formal appointment of his replacement of independent non-executive director by the Bank. The Bank made an announcement on 20 March 2017 that, as Mr. Fung proposed to the Board of Directors that he would like his resignation become effective as soon as possible, Mr. Fung has no longer been an independent non-executive director, a member of the Strategic Development and Consumer Rights Protection Committee and a member of the Nomination and Remuneration Committee of the Bank from 20 March 2017.
3. Mr. Yan Dongshun, an assistant to president and president of Nanjing Branch of the Bank, due to his desire to devote more time to his other business commitments, tendered his resignation on 13 February 2017 as an assistant to president and president of Nanjing Branch of the Bank with immediate effect.
4. The Bank made an announcement on 1 March 2017 that Ms. Xu Demei, an executive director of the Bank, tendered her resignation on the date of the announcement as the vice chairman, executive director, a member of the Related Party Transaction Control Committee and Risk Management Committee of the Bank as she has reached the retirement age, with immediate effect.
5. The Bank made an announcement on 22 June 2017 that Mr. Yang Mianzhi and Mr. Li Ruifeng were elected as an external supervisor and a shareholder supervisor at the 2016 annual general meeting, respectively. Their term of office as supervisors would be the same as the term of the third session of the Board of Supervisors of the Bank, which would commence from the date of approval by the 2016 annual general meeting until the date of completion of the re-election of the Board of Supervisors.
6. The Bank made an announcement on 12 December 2017 that due to change of work, Mr. Li Hongming, the chairman of the Board of the Bank, has tendered his resignation to the Bank on the date of the announcement as the chairman of the Board, an executive director, the chairman of the Strategic Development and Consumer Rights Protection Committee and a member of the Nomination and Remuneration Committee of the Bank. Mr. Li Hongming's resignation has taken effect on 12 December 2017.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK (Continued)

7. The Bank made an announcement on 12 December 2017 that the Board convened a meeting on the date of the announcement, and elected Mr. Wu Xuemin as the chairman of the Board, the chairman of the Strategic Development and Consumer Rights Protection Committee and a member of the Nomination and Remuneration Committee of the Bank. The qualifications of Mr. Wu Xuemin as the chairman of the Board of the Bank were subject to the approval of the CBRC Anhui Office. In light of the above work re-allocation, Mr. Wu Xuemin has resigned as the President of the Bank on the date of the announcement. As agreed by the Board, Mr. Wu Xuemin is performing on an acting basis the duties of the chairman and president of the Bank until the approval of his qualifications as the chairman of the Board is obtained, a succeeding president is appointed by the Bank and the approval of the qualification of such succeeding president is obtained.
8. The Bank made an announcement on 29 December 2017 that Mr. Qian Xiaojun has tendered his resignation to the Bank as a shareholder supervisor of the Bank and a member of the supervisory committee under the Board of Supervisors with effect from 29 December 2017.
9. Mr. Sheng Hongqing, an assistant to president and chief investment officer of the Bank, tendered his resignation on 26 February 2018 due to work reallocation and resigned as chief investment officer of the Bank while retaining his other positions in the Bank.
10. The Bank made an announcement on 28 February 2018 that Ms. Zhou Tong has tendered her resignation to the Bank as an employee supervisor of the Bank and a member of the supervisory committee under the Board of Supervisors with effect from the date of the official appointment of Mr. Tang Chuan as an employee supervisor by the Bank.
11. The Bank made an announcement on 6 March 2018 that Mr. Tang Chuan was elected as an employee supervisor according to the Bank's employee election procedures. His term of office would be the same as the term of the third session of the Board of Supervisors of the Bank.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK (Continued)

12. Save as disclosed above, pursuant to the requirement of Rule 13.51B(1) of the Hong Kong Listing Rule, the changes in the information of directors, supervisors and senior management of the Bank are as follows:

- (1) Mr. Zhang Shenghuai, an independent non-executive director of the Bank, has ceased to be an independent director of Beijing Trust & Far Technology Co., Ltd. and Sinoma Energy Conservation Ltd., but serves as an independent director of Shenzhen XFH Technology Co., Ltd. (深圳市翔豐華科技股份有限公司).
- (2) Mr. Zhao Zongren, a non-executive director of the Bank, has ceased to be the chairman of labor union of Sunshine Insurance Group Corporation Limited.
- (3) Mr. Zhu Jiusheng, a non-executive director of the Bank, has ceased to be the chairman of Bosum Asset Management Limited and Shenzhen Peng Ding Chuang Ying Financial Information Services Company Limited, respectively, but serves as the president and chief executive officer of China Vanke Co., Ltd.
- (4) Mr. Zhang Feifei, a non-executive director of the Bank, has ceased to be a director of Xing An Holdings Limited.
- (5) Mr. Wu Xuemin, an executive director of the Bank, has been acting as the chairman and president of the Bank, and serves as the chairman of Huishang Bank Financial Leasing Co., Ltd.
- (6) Mr. Xu Chongding, an employee supervisor of the Bank, has ceased to be the chairman of labor union of the Bank.
- (7) Ms. Cheng Junpei, an external supervisor of the Bank, has ceased to be the vice president of New Peak Group and the chief executive officer of No.1 Pharmacy Mall; and is currently an investment partner of Sinopharm Capital Management Co., Ltd. and a director of Sinopharm Shengkang Medicine Holdings Limited (國藥聖康醫藥有限公司).
- (8) Mr. Zhang Youqi, the vice president of the Bank, concurrently serves as the vice chairman of Chery Huiyin Motor Finance Service Co., Ltd..

Save as disclosed above, as at the Reporting Period, the Bank was not aware of any change in the information of directors, supervisors or senior management which required to be disclosed pursuant to the requirements of the Rule of 13.51B(1) of the Hong Kong Listing Rules.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors



Mr. Wu Xuemin, joined the Bank in October 2010, is currently an executive director and performs on an acting basis the duties of the chairman of the Board and president of the Bank, and the chairman of the board of Huishang Bank Financial Leasing Co., Ltd. His primary working experience includes: deputy director of the newspaper and theories department of China Construction Bank, deputy director of the administration office of China UnionPay Co., Ltd., general manager of Anhui Branch of China UnionPay Co., Ltd., and general manager of the strategic development department and legal compliance department of China UnionPay Co., Ltd. Mr. Wu, a senior economist, obtained a master's degree in economics from Renmin University of China and a master's degree in business administration for senior management from Fudan University.



Mr. Ci Yaping, joined the Bank in December 2005, is currently an executive director and vice president of the Bank. His primary working experience includes: vice president of Anqing Branch of the Bank of Communications, and chairman of the board of directors and president of Anqing City Commercial Bank. Mr. Ci, a senior economist, obtained an Executive Master of Business Administration (EMBA) master's degree from Arizona State University of United States.

Mr. Zhang Feifei, joined the Bank in April 2012, is currently a non-executive director of the Bank. His primary working experience includes: deputy director and then director of Anhui Provincial System Reform Commission, mayor of Feixi County, Anhui Province, member of the standing committee of the government and then first deputy mayor of Huaiabei, Anhui Province, and member of the standing committee of the government, first deputy mayor and then mayor of Chaohu, Anhui Province. Mr. Zhang is the chairman of the board of directors of Anhui Province Energy Group Company Limited and Anhui Province Wenergy Co., Ltd., and a director of Guoyuan Securities Company Ltd. Mr. Zhang obtained a master's degree in management from the University of Science and Technology of China.

Mr. Zhu Jiusheng, joined the Bank in October 2014, is currently a non-executive director of the Bank. His primary working experience includes: deputy director (in charge of the work) of the risk management office of Shenzhen Branch of China Construction Bank Corporation Limited, vice president (in charge of the work) of Futian Sub-branch, deputy general manager (in charge of the work) and general manager of the credit business department, general manager of the credit approval department, general manager of the corporate business department, assistant to the president and vice president of China Construction Bank Corporation Limited. Mr. Zhu is the president and chief executive officer of China Vanke Co., Ltd., director of Shenzhen Kondarl (Group) Co., Ltd., and independent non-executive director of LVGEM (China) Real Estate Investment Co., Ltd.. Mr. Zhu, a certified public accountant and senior economist, obtained a doctoral degree in industrial economics from Zhongnan University of Economics and Law.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)

Mr. Qian Li, joined the Bank in July 2015, is currently a non-executive director of the Bank. His primary working experience includes: executive of the comprehensive research office, deputy chief of Secretary Office I and head and deputy chief of the Financial Office under the Government of Anhui Province and vice mayor of Huainan City Government. He currently serves as the general manager of Anhui Credit Guaranty Group Co., Ltd. He obtained a doctorate degree in political economics from Fudan University.

Ms. Lu Hui, joined the Bank in July 2015, is currently a non-executive director of the Bank. Her primary working experience includes: assistant to manager and deputy manager of the planning and financial department of Anhui International Trust & Investment Company, manager of planning and finance department and deputy chief accountant of Anhui Guoyuan Holding (Group) Company Ltd. She is currently the chief accountant of Anhui Guoyuan Holding (Group) Co., Ltd. Ms. Lu, a senior accountant, obtained a bachelor's degree in finance from Anhui University of Finance & Economics.

Mr. Zhao Zongren, joined the Bank in October 2014, is currently a non-executive director of the Bank. His primary working experience includes: director of the office of Jining Branch, president of Qufu Sub-branch, vice president of Jining Branch, and chief of the planning office and the finance planning office of Shandong Branch of China Construction Bank Corporation Limited, deputy general manager of Shandong Branch and general manager of Guangxi Branch of China Cinda Asset Management Co., Ltd., and assistant to the president and chief supervisor of Sunshine Insurance Group Corporation Limited. Mr. Zhao is a vice chairman and executive director of Sunshine Insurance Group Corporation Limited. Mr. Zhao, a senior economist, obtained a research master's degree from the investment department of Dongbei University of Finance and Economics.

Mr. Qiao Chuanfu, joined the Bank in July 2015, is currently a non-executive director of the Bank. His primary working experience includes: general manager of Anhui Transportation Construction Investment and Development Corporation, head of office of World Bank Loan Project of the Department of Transportation of Anhui Province, chairman of Anhui Transportation Investment Group Company Limited, and general manager and vice chairman of Anhui Transportation Holding Group Co., Ltd. He is currently the chairman of Anhui Transportation Holding Group Co., Ltd. Mr. Qiao obtained an EMBA from Dongbei University of Finance and Economics. He is a senior economist.

Mr. Gao Yang, joined the Bank in December 2009, is currently a non-executive director of the Bank. Mr. Gao was the chairman of the board of directors of China Strategic Holdings Limited, and is the chairman of Zhongjing Industry (Group) Co., Ltd., Zhongjing Sihai Co., Ltd., and Zhongjing Xinhua Asset Investment Management Co., Ltd., director of WEALTH HONEST LIMITED and Zhongjing Xinhua Asset Investment Management (Hong Kong) Co., Ltd. and the chairman of Guosheng Huaxing Investment Co., Ltd. Mr. Gao studied hotel management at Meindl Vocational School in Vienna from March 1985 to March 1987 as an audit student.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)

Mr. Au Ngai, Daniel, joined the Bank in July 2013, is currently an independent non-executive director of the Bank. He was the deputy president of Bankers Trust New York Corporation, deputy manager director and general manager and partner of Newbridge Capital Limited, chief executive director of Bohai Rim Industry Investment Fund, assistance to president of A.T. Kearney Management Consultants, director of Shenzhen Develop Bank Co., Ltd. (now as "Ping An Bank Co., Ltd."). He is currently the chairman of Star Capital Partners Limited. Mr. Au obtained a master's degree in business administration from McGill University in Canada.

Mr. Dai Genyou, joined the Bank in October 2010, an independent non-executive director of the Bank. His primary working experience includes: vice president of Anqing Branch of the PBOC, division head of the first economic analysis division of investigation and research office of the headquarters, division head of the economic analysis division and then deputy director of the investigation and statistics department, director of the monetary policy department and secretary general of the monetary policy committee, director of the credit management department of the PBOC. He held the position of director of the credit management center of the PBOC in April 2007 and retired in March 2010. Mr. Dai, a senior economist, obtained a bachelor's degree in political economy from Anhui Laodong University (the predecessor of Anhui University), and was an expert with special allowances from the State Council.

Mr. Wang Shihao, joined the Bank in October 2011, is currently an independent non-executive director of the Bank. His primary working experience includes: deputy director and director of Shanghai Branch of the PBOC, director of Shanghai Urban Credit Cooperatives, vice president and director of Bank of Shanghai, director of City Commercial Bank Clearing Centre. Mr. Wang was employed as a special advisory expert for policy decision of Shanghai Municipal Government in March 2008. He is currently an independent director of Bank of Zhengzhou Co., Ltd. Mr. Wang, a senior economist, obtained a master's degree in economics from East China Normal University, a master's degree in business administration from the University of Arizona in the United States, an MBA certificate jointly granted by Shanghai Jiao Tong University and University Konstanz in Germany, as well as an EMBA certificate from Shanghai National Accounting Institute.

Mr. Zhang Shenghuai, joined the Bank in October 2011, is currently an independent non-executive director of the Bank. Mr. Zhang was the commissioner of the ninth session of the Public Offering Review Committee of CSRC. Mr. Zhang is now a director and senior partner of TianYin Lawyer Co., Ltd., and an independent director of Huabei Expressway Co., Ltd. and Shenzhen XFH Technology Co., Ltd. (深圳市翔豐華科技股份有限公司). Mr. Zhang obtained a doctoral degree in law from Renmin University of China and is a lawyer qualified to practice in China.

Mr. Zhu Hongjun, joined the Bank in October 2014, is currently an independent non-executive director of the Bank. He was a lecturer, associate professor and associate dean at the School of Accountancy of Shanghai University of Finance and Economics. He is a professor, doctoral advisor and registrar at Shanghai University of Finance and Economics. He also serves as an independent non-executive director of Ningbo Huaxiang Electronic Co., Ltd. Mr. Zhu obtained a doctoral degree in accountancy from Shanghai University of Finance and Economics.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors



Mr. Zhang Renfu, joined the Bank in December 2005, is currently the chairman of the Board of Supervisors and an employee supervisor of the Bank. His primary working experience includes: executive director of the Bank, deputy director of the liaison division of the general office of Anhui Provincial Government, researcher at the third division of the secretariat of the general office of Anhui Provincial Government, deputy director of the fifth division of the general office of Anhui Provincial Government, deputy director of the secretariat and then deputy director of the second division of the secretariat of the general office of Anhui Provincial Government, and the deputy director in charge of the work of the finance office of Anhui Provincial Government. Mr. Zhang, a senior economist, obtained a master's degree in law from Renmin University of China.



Mr. Xu Chongding, joined the Bank in February 1997, is currently an employee supervisor of the Bank. Mr. Xu once worked as the director of the personnel division of Hefei City United Bank, director of the personnel division of Hefei City Commercial Bank Corporation Limited, general manager of the human resources department of the Bank and the chairman of labor union. Mr. Xu obtained a bachelor's degree in education from Anhui Normal University.

Mr. Tang Chuan, joined the Bank in May 1999, is currently the employee supervisor and general manager of the human resources department of the Bank. Mr. Tang once worked as deputy director of the comprehensive planning section and manager of the international business department of Ma'anshan Sub-branch of China Construction Bank, director of the construction office, deputy director of the home loans department and deputy director (leading role of the section) of the housing office of the Ma'anshan Branch of China Construction Bank, manager of the credit business department and vice president of Ma'anshan City Commercial Bank, as well as vice president (in charge of operations) and president of Ma'anshan Branch of the Bank. Mr. Tang, a senior economist, graduated from the Party School of the CPC Anhui Provincial Committee majoring in finance with a postgraduate degree and obtained an Executive Master of Business Administration (EMBA) degree from the University of Science and Technology of China.

Mr. Cheng Rulin, joined the Bank in July 2013, is currently a shareholder supervisor of the Bank. His primary working experience includes: assistant to the director and then deputy director of Beijing Liaison Office of Hefei Municipal Government, deputy director of Hefei Key Project Office and vice president of Hefei Xingtai Holding Group Co., Ltd., during which he worked as deputy director of the comprehensive division in the Comprehensive Investigation and Research Department of the Economic Restructuring Office of the State Council. Mr. Cheng is the president, chairman of Hefei Xingtai Financial Holding Group Co., Ltd. and a director of Guoyuan Agricultural Insurance Co., Ltd. Mr. Cheng obtained a master's degree in management from the Australian National University.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors (Continued)

Mr. Li Ruifeng, joined the Bank in June 2017, is currently a shareholder supervisor of the Bank. He served as a director (director of State-owned Assets Office) of the finance department under the Management Committee of Wuhu Economic and Technology Development Zone (蕪湖市經濟技術開發區管委會財政局). He also served as general manager of Wuhu Economic and Technology Development Zone Construction and Investment Company (蕪湖經濟技術開發區建設投資公司). Mr. Li is currently a deputy general manager and member of the Party Committee of Wuhu Construction Investment Co., Ltd (蕪湖市建設投資有限公司). He is also concurrently the chairman of Wuhu Binjiang Construction and Development Co., Ltd. (蕪湖市濱江建設發展有限公司), and serves as a director of Wuhu Yuanda Venture Capital Company Limited (蕪湖遠大創業投資有限公司), Hua Ya Wuhu Plastic Co., Ltd. (華亞蕪湖塑膠有限公司), Wuhu Jincal Pawnshop Co., Ltd. (蕪湖金財典當有限責任公司), Guoyuan Agricultural Insurance Co., Ltd. (國元農業保險股份有限公司), Wuhu Jincal Financing Guarantee Co., Ltd. (蕪湖金財融資擔保有限責任公司), Wu Hu Min Qiang Financing Guarantee (Group) Co., Ltd (蕪湖市民強融資擔保(集團)有限公司) and Wuhu Jiangdong Venture Capital Management Co., Ltd. (蕪湖市江東創業投資管理有限公司), respectively. Mr. Li also acts as a supervisor of Chery Huiyin Motor Finance Service Co., Ltd. (奇瑞徽銀汽車金融股份有限公司) and Wuhu Squatter Settlement and Construction Co., Ltd. (蕪湖市惠城棚改建設有限公司), respectively. He obtained his bachelor's degree in economics from the Central Institute of Finance (currently known as the Central University of Finance and Economics).

Ms. Cheng Junpei, joined the Bank in December 2009, is currently an external supervisor of the Bank. Her primary working experience includes: acting general manager of a German subsidiary of Metro Group, general manager of Swiss DKSH (Shanghai) International Trade and deputy general manager of Sinopharm Group Co., Ltd., managing director of Shanghai TianYi Consulting Co., Ltd., DeKangHang International Trading Co., Ltd. and general manager of Sinopharm Medicine Logistics Co., Ltd. and Sinopharm Holding Distribution Co., Ltd. She is currently investment partner of Sinopharm Capital Management Company Limited and director of Sinopharm Shengkang Medicine Holdings Limited. She got a master's degree in business administration from Nyenrode Business University in the Netherlands.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors (Continued)

Ms. Pan Shujuan, joined the Bank in July 2013, is currently an external supervisor of the Bank. She is a professor in Anhui University of Finance & Economics. Her primary working experience includes: deputy head of Department of Finance, vice dean of the School of Economics and Finance and dean of the School of Finance of Anhui University of Finance & Economics, member of the Academic Committee and the Educational Committee of Anhui University of Finance & Economics, and director of the Professor Committee of the School of Finance of Anhui University of Finance & Economics. Ms. Pan is currently an independent director of Anhui Guang De Rural Commercial Bank. She got a bachelor's degree from Anhui Finance and Economics University (formerly known as Anhui Institute of Finance and Trade).

Mr. Yang Mianzhi, joined the Bank in June 2017, is currently an external supervisor of the Bank. He served as a head of the Department of Finance and an associate dean at the School of Business, Anhui University. Currently, he serves as the director of the Accounting and Financial Research Center, a professor and a Ph.D. supervisor of Anhui University, and is concurrently an independent director of Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司), Guoyuan Securities Co., Ltd. (國元證券股份有限公司) and Anhui Anli Material Technology Co., Ltd.(安徽安利材料科技股份有限公司). He obtained his doctorate degree in management from Renmin University of China (中國人民大學).

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management

Mr. Wu Xuemin is an executive director, acting chairman and president of the Bank. Please refer to "Directors" section in this chapter for details of his biography.

Mr. Ci Yaping is an executive director and a vice president of the Bank. Please refer to "Directors" section in this chapter for details of his biography.



Mr. Gao Guangcheng, joined the Bank in February 1997, is currently a vice president of the Bank. His primary working experience includes: president of Huaihe Road Sub-branch of Hefei City Commercial Bank Corporation Limited, assistant to the president, vice president and then president of Hefei City Commercial Bank Corporation Limited, and president of Hefei Branch of the Bank. Mr. Gao, a senior economist, obtained a bachelor's degree in economics from Anhui Finance and Economics University.



Mr. Zhang Youqi, joined the Bank in December 2005, is currently a vice president of the Bank and the vice chairman of Chery Huiyin Motor Finance Service Co., Ltd.. His primary working experience includes: working in Anhui Branch of the PBOC, vice president of Hefei Sub-branch of China Everbright Bank, chairman of the board of directors of Tongling Urban Credit Cooperatives, and executive director of the Bank, president of Tongling Branch of the Bank, general manager of the business department and the institutional management department of the Bank and secretary of the Board. Mr. Zhang, a senior economist, obtained a bachelor's degree in economics from Anhui Finance and Economics University (formerly known as Anhui Institute of Finance and Trade), and a master's degree in business administration from Renmin University of China.



Mr. Sheng Hongqing, joined the Bank in March 2015, is currently an assistant to the president of the Bank. He served as the deputy director at Hubei Institute for Nationalities, a manager of Huaxia Bank and a business manager and officer of China Everbright Bank. He is a holder of a doctorate degree in international economics from Chinese Academy of Social Sciences.



Mr. Yi Feng, joined the Bank in May 2009, is currently an assistant to the president and secretary to the Board of the Bank. His primary working experience includes: deputy director of the administration office of CCB Anhui Branch, president of CCB Huangshan Branch, director of the entrustment loan department of CCB Anhui Branch, general manager of the institution and investment banking department of CCB Anhui Branch, president of CCB Hefei Sanxiaokou Sub-branch, and president of CCB Hefei City West Sub-branch, assistant to president and president of Hefei Branch of the Bank. Mr. Yi, a senior economist, obtained a master's degree in arts from Xiamen University.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management (Continued)



Mr. Xia Min, joined the Bank in February 1997, is currently an assistant to the president and president of Hefei Branch of the Bank. His primary working experience includes: assistant to the president of Changjiang Middle Road Sub-branch of Hefei City United Bank, president of Xiaoyaojin Sub-branch of Hefei City Commercial Bank Corporation Limited, general manager of the fund and finance department of Hefei City Commercial Bank Corporation Limited, assistant to the president and vice president of Hefei City Commercial Bank Corporation Limited, assistant to the president and general manager of the planning and finance department of the Bank, and assistant to the president and general manager of the assets and liabilities department of the Bank. Mr. Xia obtained a doctoral degree in economics from the Research Institute for Fiscal Science of the MOF.



Mr. Chen Hao, joined the Bank in December 2014, is currently the chief information officer of the Bank. His primary working experience includes: the cadre of the finance and accounting division and the computer department of the head office of Bank of China, EDP vice manager of New York office of Bank of China, deputy director and director of the software center of the head office of Bank of China, general manager of Bocsoft Information Industrial Co., Ltd. and software center of Bank of China concurrently, leader of receipt and payment working team, deputy general manager of the IT department, general manager of the e-banking department of Bank of China as well as a full-time supervisor of Bank of China (Russia). Mr. Chen, a senior engineer, obtained a master's degree in management information from the City University of New York.

8.4 THE ASSESSMENT INCENTIVE MECHANISM AND ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank provides remunerations to independent directors and external supervisors according to the Proposals on Subsidies to Independent Directors of the Bank and Subsidies to External Supervisors of the Bank, and provides remuneration to executive directors, employee supervisors and senior management according to the "Measures of Huishang Bank on Directors' Remuneration", the "Measures of Huishang Bank on Supervisors' Remuneration", and the "Measures of Huishang Bank on Senior Management's Remuneration.

The non-executive directors and shareholder supervisors do not receive any remuneration from the Bank.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.4 THE ASSESSMENT INCENTIVE MECHANISM AND ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

According to the "Performance Appraisal Measures of the Board of Supervisors of Huishang Bank on the Board of Directors and Directors (Amended)", the "Performance Appraisal Measures of the Board of Supervisors of Huishang Bank on Senior Management and its Members (Amended)", and the "Performance Appraisal Measures on the Board of Supervisors and Supervisors of Huishang Bank (Amended)", the Board of Supervisors of the Bank assesses annually the duties performance by directors, supervisors and the senior management.

During the Reporting Period, the Bank did not have any situation where directors gave up or agreed to give up any remuneration as described in Rule 24A of Appendix 16 of the Hong Kong Listing Rules. The details of directors', supervisors' and senior management's remunerations received from the Bank for the year are stated in section 8.1 "Directors, Supervisors and Senior Management" of this annual report. The top five highest paid individuals of the year are listed in Note 11 of the financial statements.

8.5 EMPLOYEE

As of 31 December 2017, the Bank had a total of 9,520 employees in service. The composition of employees is as follows:

1. Responsibilities:

		Number of employees	% of total
Responsibilities	Management	2,252	23.65%
	Marketing	5,293	55.60%
	Supporting	1,975	20.75%

2. Academic distribution:

		Number of employees	% of total
Academic structure	Master and above	1,489	15.64%
	Bachelor	7,076	74.33%
	Diploma degree and below	955	10.03%

Staff remuneration policy

The Bank's remuneration policy aims to establish a well-developed, scientific and efficient incentive and control mechanisms for realization of shareholders value and optimization of the Bank and employees' interest. The policy will stimulate stable operation and sustainable development. It is useful for meeting the strategic objectives, enhancing competitiveness, retaining talent and managing risk. By following the principle of being "advanced, sustainable, compliant, timely, and practical", the Bank will take initiatives and be creative, and prioritize efficient operation and fairness within the scope of unified rules and framework.

The Bank manages remuneration through three levels, namely the Board, senior management, head office and branches. The Board is responsible for the total amount of remuneration and senior management's remuneration. Under the Board's request, the senior management allocates the total amount of remuneration and drafts policy management of all branches. All branches manage employee salary within the scope of unified rules and framework.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.5 EMPLOYEE (Continued)

Staff training plan

According to the spirit and planning of its work conference, the Bank keeps improving its education and training system by reference to its needs arising from business development and the transformation and upgrades of education and training tasks, aiming to secure talents with competence and intelligence in support of its development, thus transforming and upgrading to “scientific, systematic and standardized” training management gradually. During the Reporting Period, the training center of Huishang Bank has been fully utilized, the Huiyin Internet School completed its optimization and upgrades, and the mobile learning platform “Huiyin Academy” was successfully launched. Meanwhile, the Bank continuously made efforts in course resources and internal trainer team establishment so as to enrich the faculty, implemented targeted training projects for staff at different levels across the Bank, and carried out all training works smoothly and efficiently. The Bank conducted a total of 987 concentrated training sessions in 2017, amounting to 544,858.5 training hours with a total enrolment of 73,582. For the year, the hours and sessions per capita were 57.15 and 7.72 respectively.

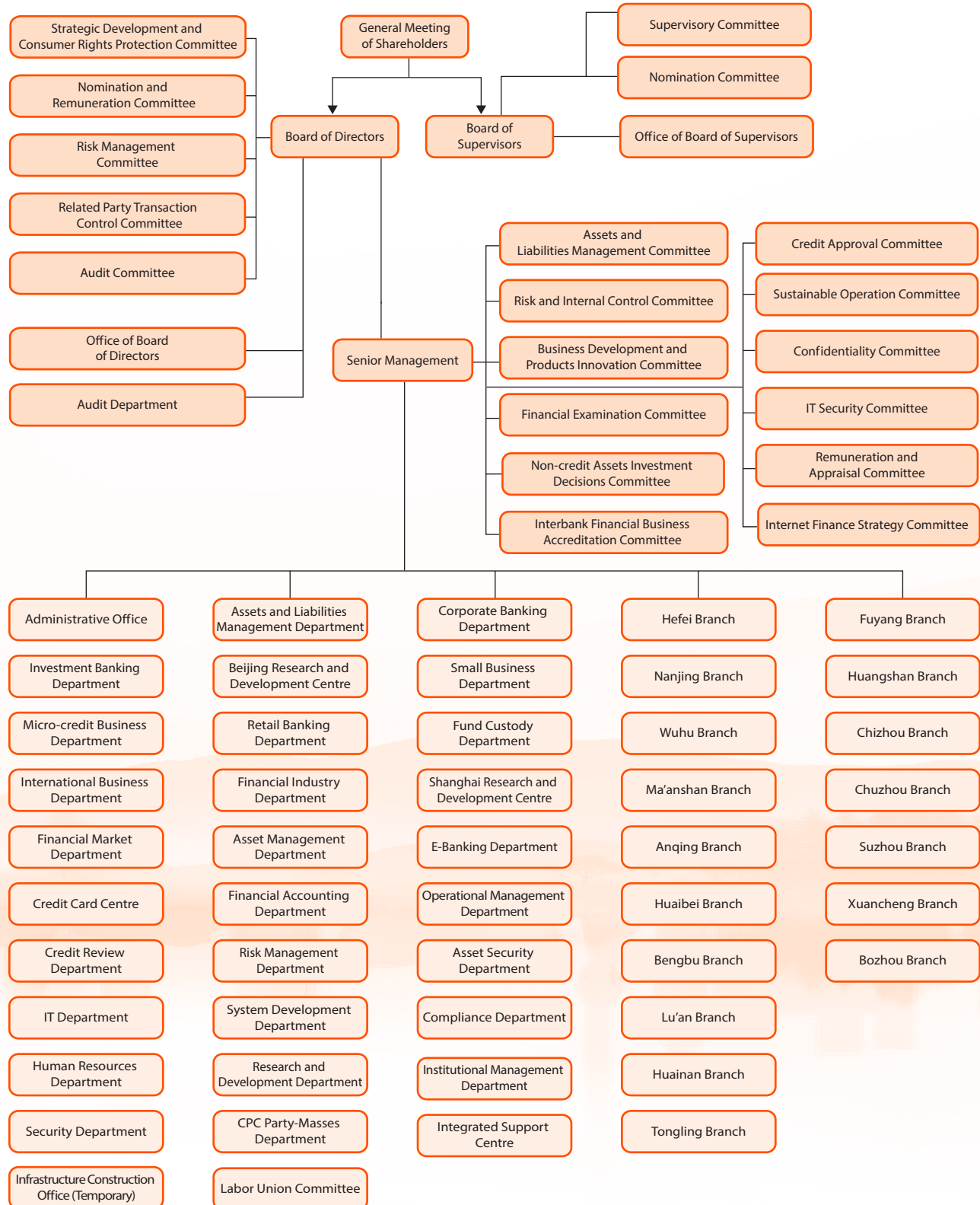
8.6 BRANCHES

As of 31 December 2017, the composition of branches of the Bank is as follows:

Region	Name of the Institution	Address	Postcode	Number of Branch
Head Office	Head Office	No. 79, Anqing Road, Hefei	230001	1
Anhui Province	Hefei Branch	No. 626, Huangshan Road, Gaoxin District, Hefei	230000	90
	Wuhu Branch	No. 1, Beijing Road, Wuhu	241000	38
	Ma'anshan Branch	No. 3663, Taibai Road, Yushan District, Ma'anshan	243000	24
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	33
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	24
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	32
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	30
	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	232000	20
	Tongling Branch	No. 999, Yangjiashan Road, Tongling	244000	15
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	27
	Huangshan Branch	No. 2, Tunguang Avenue, Tunxi District, Huangshan	245000	12
	Chizhou Branch	No. 515, Changjiang Zhong Road, Chizhou	247000	14
	Chuzhou Branch	No. 95, Longpan Main Road, Chuzhou	239000	14
	Suzhou Branch	No. 123, Yinheyi Road, Suzhou	234000	16
	Xuancheng Branch	No. 1, West Aofeng Road, Xuancheng	242000	18
	Bozhou Branch	Xiangzhang Mansion, West Shaohua Road, Bozhou	236000	13
Jiangsu Province	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000	11
Total				432

Chapter IX Corporate Governance Report

9.1 CORPORATE GOVERNANCE STRUCTURE



Chapter IX Corporate Governance Report

9.2 CORPORATE GOVERNANCE

The Bank believes that maintaining high standards of corporate governance mechanisms and high quality corporate governance is one of the key factors to improve our core competitiveness and to build a modern commercial bank. Therefore, the Bank focuses on high quality of corporate governance, abides by the best domestic and international corporate governance practice, to ensure the rights and interests of shareholders and improve the value of the enterprise.

The Bank has established a relatively comprehensive corporate governance structure, clearly setting forth the responsibilities of general meeting, the Board of Directors, the Board of Supervisors and senior management, constantly improving the Bank's decision-making, execution and supervision mechanism so as to ensure the independent operation of various parties and an effective check and balance.

During the Reporting Period, except for the provisions of paragraphs A.2.1, A.2.7, A.4.2 and A.5.1 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and conforms to substantially all of the recommended best practices set forth therein. For the deviations from the Corporate Governance Code of the Bank, please refer to details in sections 9.4.2, 9.4.3, 9.4.4 and 9.5.2 of this chapter.

The Bank has incorporated the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by CBRC into the Bank's governance structure and policies. The Code and Guidelines are well reflected in the Bank's Articles of Association and the Terms of Reference of general meeting, Board of Directors and special committees. The general meeting, Board of Directors, Board of Supervisors and management performed their respective duties, and formed good corporate governance structure. The Bank ensured regulated operation according to the requirements of Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, and Guidelines on the Corporate Governance of Commercial Banks.

The Bank has also strictly complied with the management of insider information required by the relevant laws and regulations and the Hong Kong Listing Rules.

The Bank will review the corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and meet the higher expectations from the shareholders and investors.

Chapter IX Corporate Governance Report

9.2 CORPORATE GOVERNANCE (Continued)

The Board diversity policy

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

In respect of appointing the Board of Directors, the Bank will consider the diversity of the members in several aspects including but not limited to gender, age, culture, education background, region, professional experience, skills, knowledge, service term and other regulatory requirements, etc.

The Board members were appointed on the basis of their skills by taking into consideration the skills and experience required for smooth growth. In addition, the Bank thoroughly considers the goals and requirements for having a diversified Board of Directors.

Members of the Board of Directors will be selected according to a series of diversification benchmarks including but not limited to gender, age, culture, education background, region, professional skills, and knowledge and service term. The final decision will be made based on the candidate's specialty and his potential contribution to the Board.

The Nomination and Remuneration Committee of the Board is responsible for reviewing the structure, number of members, and composition of the Board of Directors. In addition, the Committee makes recommendations to the Board relating to the size and structure of the Board of Directors based on the Bank's strategic plans, business operations, asset size and shareholding structure. The Committee also discusses and reviews the selection standard, the nomination and appointment process, and makes recommendations to the Board of Directors. The candidates will be approved by the Board of Directors.

This policy needs to be followed when the Nomination and Remuneration Committee of the Board makes recommendations on the candidates or when the Board of Directors makes nomination. The Nomination and Remuneration Committee of the Board is responsible for monitoring the implementation of this policy and reviewing this policy at the appropriate time to ensure its effectiveness. The Nomination and Remuneration Committee will discuss any amendments when necessary and make recommendations to the Board of Directors for final approval.

During the Reporting Period, this policy was followed when the Nomination and Remuneration Committee made recommendations on the candidates and when the Board made nomination.

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS

On 22 June 2017, the Bank held the 2016 annual general meeting in Hefei, at which the following resolutions were considered and approved:

The 2016 Final Financial Reports for Consideration and Approval

The 2017 Financial Budget for Consideration and Approval

The 2016 Profit Distribution Plan for Consideration and Approval

The Appointment of External Auditors for 2017 for Consideration and Approval

The 2016 Directors (including Independent Non-executive Directors) Performance Appraisal Report of the Board of Directors for Consideration and Approval

The 2016 Supervisors (including External Supervisors) Performance Appraisal Report of the Board of Supervisors for Consideration and Approval

The 2016 Work Report of the Board of Directors of the Bank for Consideration and Approval

The 2016 Work Report of the Board of Supervisors of the Bank for Consideration and Approval

The Supplementary Resolution on the Resolution on Establishing Direct Banking as Independent Legal Person for Consideration and Approval

The Amendment of the Terms of Reference of General Meeting of Huishang Bank Corporation Limited (Preference Shares) for Consideration and Approval

The Amendment of the Terms of Reference of General Meeting of Huishang Bank Corporation Limited (A Shares + Preference Shares) for Consideration and Approval

The Election of Mr. Yang Mianzhi as the External Supervisor of the Third Session of the Board of Supervisors of the Bank for Consideration and Approval

The Election of Mr. Li Ruifeng as the Shareholder Supervisor of the Third Session of the Board of Supervisors of the Bank for Consideration and Approval

The Resolution on General Mandate for Issuance of Shares by the Bank for Consideration and Approval

The Resolution on Extension of Valid Period of the Proposal for the Initial Public Offering and Listing of A Shares by the Bank for Consideration and Approval

The Resolution on Extension of the Authorization of Dealing with the Valid Period of Specific Matters Related to Initial Public Offering and Listing of A Shares of the Bank for Consideration and Approval

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS (Continued)

The Resolution on Amendments to the Three-year Dividend Proposal Plan after the Initial Public Offering and Listing of A Shares of Huishang Bank Corporation Limited for Consideration and Approval

The Resolution on Amendments to the Articles of Associations of Huishang Bank Corporation Limited (A Shares + Preference Shares) for Consideration and Approval

The convening, notification, holding and voting procedures of the above meetings are in compliance with the Hong Kong Listing Rules, the Company Law, other relevant laws and regulations in China and the relevant provision of the Articles of Association of the Bank.

9.4 THE BOARD OF DIRECTORS

The Board of Directors is core to the corporate governance. The Bank adopts the president accountability system under the leadership of the Board of Directors. The Board is the independent decision-making body, which is responsible for implementing the resolution of the general meetings, formulating the Bank's major strategy, policy and development plan, approving the operation plan, investment plan and the Bank's internal management setup, formulating the annual financial budget, final accounts and profit distribution plan, appointing the senior management. The senior management has the rights to make decision in daily operation independently and the Board of Directors will not intervene specific daily affairs.

The Bank's Board of Directors emphasizes similarity in both externality and internality in system establishment and practical operation. With respect to the establishment of the Board's structure, the Bank makes the Board's decision more scientific and reasonable through the establishment of a diversified board structure, and improves the Board's efficiency in decision-making and operation through the efficient operation of the special committees. It adheres to grasping key points, direction and strategy in Board operation. During the Reporting Period, there were a total of 7 meetings convened and 49 resolutions considered. Constantly strengthening balanced, sound and sustainable development concept, the Board of Directors ensures the rapid, sustainable and sound development of the Bank through the effective management of the strategy, risk, capital, compensation and audit.

9.4.1 Members of the Board of Directors

The Bank elects its Directors based on the qualification requirements and election procedures set out in the Articles of Association. As of 23 March 2018, the Board of Directors consists of 14 directors, including 2 executive directors, namely Wu Xuemin (performing on an acting basis the duties of the chairman of the Board and president of the Bank) and Ci Yaping (vice president); 7 non-executive directors, namely Zhang Feifei, Zhu Jiusheng, Qian Li, Lu Hui, Zhao Zongren, Qiao Chuanfu and Gao Yang; 5 independent non-executive directors, namely Dai Genyou, Wang Shihao, Zhang Shenghuai, Au Ngai Daniel and Zhu Hongjun. The number of directors and the composition of the Board are in compliance with relevant laws and regulations. The decision making, authorization and voting procedures strictly follow the relevant rules and regulations of regulatory authorities and the Bank's Articles of Association. During the Reporting Period, the Board of Directors discharged its duties diligently, carefully reviewed all matters that were significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational changes, facilitated prudent decision making, ensured financial stability and protected the interests of the Bank and its shareholders.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.2 Appointment, re-election and removal of directors

According to the Bank's Articles of Association, Directors shall be elected or removed from office by shareholders at a general meeting. The term of office of a director shall be three (3) years, and a director may be re-elected and re-appointed upon expiry of his/her term of office. Subject to the relevant laws and administrative regulations, a director whose term of office has not expired may be removed by shareholders' ordinary resolution, without prejudice to any claim which may be instituted under any contract.

The term of service of non-executive directors and independent non-executive directors shall be the same as that of other directors of the Bank and they may be re-elected and re-appointed upon the expiration of their term of office, provided that such term of office of independent non-executive directors shall not be more than six (6) years on an accumulative basis.

The directors' appointment, re-election and removal procedures of the Bank are set forth in the Articles of Association. The Nomination and Remuneration Committee is responsible for discussing and reviewing the qualification and experience of each candidate and recommending the suitable candidates to the Board of Directors. After the approval from the Board of Directors, the selective candidates will be recommended for further approval by the general meeting of shareholders. Except for the independent non-executive directors who have to be treated separately due to the expiration of office, the other new directors will be re-elected by general meeting at the expiration of the term of that Board session (each session has a term of three years), instead of being elected during the first general meeting after his/her appointment.

Pursuant to the requirements under paragraph A.4.2 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, each director (including those appointed for a specific term) should be subject to retirement by rotation at least once every three years. The term of office of the third session of the Board of Directors, Board of Supervisors and senior management has expired on 10 July 2016. As, among others, nomination process for part of directors nominated by shareholders has not yet been completed and candidates for part of directors are still in selection process, the Bank could not accomplish the re-election work before the expiration of the third session of Board of Directors. The current directors, supervisors and senior management shall continue to perform their respective duties until the reelection work is completed.

9.4.3 Responsibility of directors

During the Reporting Period, all the Bank's directors are prudent, earnest, and diligent to exercise their rights granted by the Bank and domestic and overseas regulatory authorities. The Bank's directors have spent adequate time and effort to deal with the Bank's affairs, ensuring the compliance of Bank's operation with the requirement of national laws, administrative regulations and the requirements of national economic policies. The Bank's directors have treated all the shareholders equally, informed themselves of the status of the Bank's business operation and management in a timely manner, implemented the laws and administrative regulations, departmental rules and other diligence obligations prescribed by the Articles of Association. The Board of Directors confirmed that they are responsible for the preparation of the annual financial report for the year ended 31 December 2017.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.3 Responsibility of directors (Continued)

The independent non-executive directors of the Bank make full use of their respective professional expertise to provide professional and independent advices on the corporate governance, operation and management of the Bank in various Board committees, including the Strategic Development and Consumer Rights Protection Committee, Nomination and Remuneration Committee, Risk Management Committee, Related Party Transaction Control Committee and Audit Committee, ensuring that scientific decision-making could be made by the Board of Directors.

The Bank also pays attention to the ongoing training of directors, to make sure they have proper understanding of the operation and business of the Bank and the duties and responsibilities conferred by the relevant laws and regulatory requirements of the CBRC, the CSRC, the Hong Kong Stock Exchange and the Articles of Association of the Bank. The Bank has bought the director liability insurance for all directors.

During the Reporting Period, the Bank carried out evaluation of the performance of directors by the Board of Directors, evaluation of the performance of Board of Directors and Directors by the Board of Supervisors, evaluation of the performance of senior management and its members by the Board of Supervisors, evaluation of the performance of Supervisors by the Board of Supervisors and mutual assessment of external supervisors.

Pursuant to the requirements under paragraph A.2.7 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, the Bank's chairman should hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present at least once a year. The Bank's chairman has had meetings with non-executive directors (including independent non-executive directors) by means of discussions, site visits, receptions etc., while the Board of the Bank is currently composed of 14 directors, 12 of which are non-executive directors (including independent non-executive directors). Given this, the Board is sufficiently independent and its decision-making will not be impacted by the views of the executive directors. Therefore, the Bank did not hold such meetings during the Reporting Period.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.4 The chairman and president

Pursuant to relevant regulatory requirements and the Articles of Associations of the Bank, the respective role and responsibilities of the Bank's chairman and president are clearly defined. From 1 January 2017 to 11 December 2017, Mr. Li Hongming, chairman of the Bank, leading and managing the Board of Directors, is responsible for managing the operation of the Board, ensuring that all directors are aware of the current issues within the Board of Directors meeting and that all important and relevant matters could be discussed by the Board in a timely and constructively manner. To assist the Board of Directors to discuss all important or other related matters, the chairman of the Board works with senior management to ensure that all directors receive timely, appropriate, complete and reliable information for their consideration and review. Mr. Wu Xuemin serves as the president of the Bank, who is responsible for business operations, implementing the Bank's strategy and carrying out the business plan.

Due to change of work, Mr. Li Hongming resigned on 12 December 2017 as the chairman of the Board, an executive director, the chairman of the Strategic Development and Consumer Rights Protection Committee and a member of the Nomination and Remuneration Committee of the Bank. The Board of Directors has elected Mr. Wu Xuemin as the succeeding chairman of the Bank, the chairman of the Strategic Development and Consumer Rights Protection Committee and a member of the Nomination and Remuneration Committee of the Bank. The qualifications of Mr. Wu Xuemin as the chairman of the Board of the Bank are subject to the approval of the CBRC Anhui Office. In light of the above work re-allocation, Mr. Wu Xuemin has resigned as the president of the Bank on 12 December 2017. As agreed by the Board, Mr. Wu Xuemin is performing on an acting basis the duties of the chairman of the Board and president of the Bank until the approval of his qualifications as the chairman of the Board is obtained and a succeeding president is appointed by the Bank and the approval of the qualification of such succeeding president is obtained.

Pursuant to the requirements of under paragraph A.2.1 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, the roles of chairman and chief executive officer should be separate and not be performed by the same individual. During the transitional period prior to the appointment of succeeding president of the Bank, in making the arrangement of Mr. Wu Xuemin performing on an acting basis the duty of the chairman and the president, the fact that Mr. Wu Xuemin, having been the president of the Bank for more than 7 years, is familiar with the management and operation of the Bank has been taken into consideration. The transitional arrangement can facilitate the management of the Bank and ensure the consistency of decision making and approval process.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.5 Summary of the directors attending the general meetings, board meetings and board committee meetings

Directors	General Meeting ⁽¹⁾⁽²⁾	Board of Directors ⁽³⁾	Board Committees						
			Strategic Development and Consumer Rights Protection Committee	Nomination and Remuneration Committee	Risk Management Committee	Related Party Transaction Control Committee	Audit Committee		
	Attendance of 2016 annual general meeting								
			Actual attendance/Required attendance						
Executive Directors	Li Hongming (resigned) ⁽⁶⁾	✓	6/6	6/6	3/3	-	-	-	
	Xu Demei (resigned) ⁽⁶⁾	-	0/0	-	-	0/0	0/0	-	
	Wu Xuemin ⁽⁶⁾	✓	7/7	6/6	-	-	-	-	
	Ci Yaping	✓	7/7	-	-	4/4	-	-	
Non-executive Directors	Zhang Feifei	-	6/7 ⁽⁴⁾	6/6	-	-	-	1/2 ⁽⁴⁾	
	Zhu Jiusheng	-	5/7 ⁽⁴⁾	4/6 ⁽⁴⁾	-	-	-	-	
	Qian Li	-	5/7 ⁽⁴⁾⁽⁵⁾	5/6 ⁽⁴⁾	3/3	-	-	-	
	Lu Hui	✓	5/7 ⁽⁴⁾	5/6 ⁽⁴⁾	-	-	-	-	
	Zhao Zongren	-	6/7 ⁽⁴⁾	6/6	-	-	-	-	
	Qiao Chuanfu	✓	7/7	-	-	4/4	-	-	
	Gao Yang	✓	6/7 ⁽⁵⁾	6/6	3/3	-	-	-	
	Independent Non-executive Directors	Dai Genyou	✓	6/7 ⁽⁵⁾	-	3/3	-	-	2/2
	Wang Shihao	-	6/7 ⁽⁴⁾	6/6	-	4/4	-	-	
Zhang Shenghuai	-	7/7	-	3/3	-	4/4	-		
Au Ngai, Daniel	-	6/7 ⁽⁵⁾	-	2/3 ⁽⁵⁾	-	2/4 ⁽⁵⁾	-		
Zhu Hongjun	-	7/7	-	-	-	4/4	2/2		
Fung Weichang (resigned) ⁽⁶⁾	-	-	0/1 ⁽⁵⁾	0/1 ⁽⁵⁾	-	-	-		

- Notes: (1) On 22 June 2017, the Bank held the 2016 annual general meeting in Hefei City, Anhui Province.
- (2) For directors who were unable to attend the 2016 annual general meeting due to personal reason, all of them have completed the formalities for leave application in writing.
- (3) During the Reporting Period, the Bank held 7 Board meetings in total.
- (4) If the actual attendance is lower than required attendance, it represents the proxy attendance when the above directors are absent from Board meeting in person.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.5 Summary of the directors attending the general meetings, board meetings and board committee meetings (Continued)

Notes: (Continued)

- (5) If the actual attendance is lower than required attendance, it represents the above directors are absent from Board meeting in person, with Directors Qian Li, Gao Yang and Dai Genyou each absent from 1 of the Board meetings; Director Au Ngai, Daniel absent from 1 of the Board meetings, 1 of the Nomination and Remuneration Committee meetings and 2 of the Related Party Transaction Control Committee meetings, and Director Fung Weichang absent from 1 of the Strategic Development and Consumer Rights Protection Committee meetings, 1 of the Nomination and Remuneration Committee meetings.
- (6) For details of the changes in the positions held by Mr. Li Hongming, Mr. Wu Xuemin, Ms. Xu Demei and Mr. Fung Weichang, please refer to Section 8.2 “Changes in Directors, Supervisors and Senior Management of the Bank” in this annual report.

9.4.6 Securities transaction by directors, supervisors and senior management

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (“Model Code”) set out in Appendix 10 to the Hong Kong Listing Rules as its codes of conduct regulating securities transactions by the directors, the supervisors and the related employees (having the same meaning as defined in Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules) of the Bank. Having made specific enquiry of all directors, supervisors and the staff of senior management, the Bank confirmed that they had complied with the Model Code during the Reporting Period.

9.4.7 Performance of the independent non-executive directors

The Bank’s Board of Directors consists of 5 independent non-executive directors and the qualification, number and proportion are in accordance with the regulations of the CBRC, the CSRC and the Hong Kong Listing Rules. The 5 independent non-executive directors are not involved in any conflict with the independence issue described in the Rule 3.13 of the Hong Kong Listing Rules. The Bank has received from each of the independent non-executive director the annual independence confirmation in accordance with the Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Bank confirms that all the independent non-executive directors complied with the Hong Kong Listing Rules in respect of their independence. During the Reporting Period, independent non-executive directors represent the majority of the Bank’s Audit Committee and Related Party Transaction Control Committee under the Board and serve as chairman of these committees. During the Reporting Period, the 5 independent non-executive directors kept in touch with the Bank through various means such as attending the meeting and symposiums. They earnestly participated in meetings of the Board of Directors and the Board committees and actively gave their opinions and emphasized on the interests of minority shareholders. The independent non-executive directors have fully discharged their responsibilities.

During the Reporting Period, the Bank’s independent non-executive directors issued independent opinions on the Bank’s related party transactions.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS

The Bank's Board of Directors has delegated some of its responsibilities to the different Board committees. The Bank has set up 5 Board committees, including the Strategic Development and Consumer Rights Protection Committee, Audit Committee, Nomination and Remuneration Committee, Risk Management Committee and Related Party Transaction Control Committee according to the relevant PRC laws, regulations, the Bank's Articles of Association and the Hong Kong Listing Rules.

During the Reporting Period, the Board committees exercised their respective authorities and powers in an independent, standardized and effective manner. In 2017, they held a total of 19 meetings, at which 76 resolutions that are significant to the sustainable development of the Bank and improvement of corporate governance, were studied and considered, improving the efficiency and scientific decision-making ability of the Board while promoting the sound development of the businesses of the Bank.

9.5.1 Strategic Development and Consumer Rights Protection Committee

Our Strategic Development and Consumer Rights Protection Committee consists of 1 executive director, namely Mr. Wu Xuemin; 6 non-executive directors, namely Mr. Zhang Feifei, Mr. Zhu Jiusheng, Mr. Qian Li, Ms. Lu Hui, Mr. Zhao Zongren and Mr. Gao Yang; and 1 independent non-executive director, namely Mr. Wang Shihao. Currently, Mr. Wu Xuemin is the chairman of the committee.

The principal responsibilities of the Strategic Development and Consumer Rights Protection Committee include:

- formulating operational and management goals, medium to long-term development strategy and listing plans of the Bank and making recommendations to the Board;
- reviewing the strategic capital allocation and management objectives of assets and liabilities and making recommendations to the Board;
- preparing plans for the overall development of various financial businesses and making recommendations to the Board;
- reviewing strategic development plans for human resources and making recommendations to the Board;
- supervising and examining the implementation of annual operating plans and investment proposals;
- reviewing annual financial budgets and final reports and making recommendations to the Board;
- considering plans for significant institutional restructuring and re-organization and making recommendations to the Board;
- reviewing the plan of significant investment and financing and relevant proposals submitted by the senior management, and making recommendations to the Board;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.1 Strategic Development and Consumer Rights Protection Committee (Continued)

- reviewing the design of merger and acquisition plans and relevant proposals submitted by the senior management, and making recommendations to the Board;
- reviewing plans for information technology development and other special strategic development plans and making recommendations to the Board;
- reviewing and evaluating the effectiveness of corporate governance structure so as to ensure that the financial reporting, risk management and internal control meet our standards for corporate governance;
- formulating the strategy, policy and objective for protection of consumer rights and interests across the whole Bank, and making recommendations to the Board;
- reviewing the organizational structure and operating mechanism of works on protection of consumer rights and interests across the whole Bank, as well as the internal control system, and making recommendations to the Board;
- guiding the senior management in conducting works on protection of consumer rights and interests from the perspective of overall planning, supervising and evaluating the comprehensiveness, promptness and effectiveness of the works on protection of consumer rights and interests across the whole Bank and relevant duty performance of senior management, listening to special reports of senior management in respect of the progress of works on protection of consumer rights and interests on regular basis, and treating relevant works as an important part of information disclosure.

During the Reporting Period, our Strategic Development and Consumer Rights Protection Committee held 6 meetings in total, at which resolutions on the annual final financial report, annual financial budget plan, annual general business operation plan, and evaluation report for strategy implementation, etc. were considered and approved.

9.5.2 Nomination and Remuneration Committee

Our Nomination and Remuneration Committee consists of 1 executive director, namely Mr. Wu Xuemin; 2 non-executive directors, namely Mr. Qian Li and Mr. Gao Yang; and 3 independent non-executive directors, namely Mr. Dai Genyou, Mr. Zhang Shenghuai and Mr. Au Ngai, Daniel. Currently, Mr. Dai Genyou is the chairman of the committee.

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9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.2 Nomination and Remuneration Committee (Continued)

The principal responsibilities of the Nomination and Remuneration Committee include:

- preliminarily reviewing the qualifications of candidates for directors and candidates for senior management (especially the chairman and president), and making recommendations to the Board;
- making recommendations to the Board on the structure, number, size and composition (including the skills, knowledge and experience) of the Board based on our business operation, asset scale and shareholding structure;
- identifying candidates with suitable qualifications to serve as directors and senior management, and establishing a mechanism for key talents pool;
- evaluating the independence of independent non-executive directors;
- developing appraisal criteria for directors and senior management, organizing performance appraisals for directors and senior management on a regular basis, and submitting the appraisal results to the Board;
- considering our remuneration management system and policies, preparing the appraisal and remuneration proposals for directors and senior management, making recommendations to the Board, developing policies and approval plans, and monitoring the implementation of such plans;
- making recommendations to the Board on the remuneration package of individual executive directors and senior management. The factors that shall be considered by the committee include salaries paid by comparable companies, time commitment of directors and their responsibilities, employment conditions of other positions within the Bank and whether salaries should be determined on the basis of performance;
- reviewing compensation payable to executive directors and senior management for any loss or termination of office or appointment, and making recommendations to the Board;
- reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct, and making recommendations to the Board;
- ensuring that no director or any of his or her associates (defined under the Hong Kong Listing Rules) is involved in deciding his or her own remuneration.

During the Reporting Period, our Nomination and Remuneration Committee held 3 meetings in total, at which resolutions on the performance report of directors and senior management by the Board, the 2016 annual performance results of executive directors and senior management and review of candidates' qualifications for directors, etc. were considered and approved.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.2 Nomination and Remuneration Committee (Continued)

During the Reporting Period, Mr. Fung Weichang ceased to be an independent non-executive director and a member of the Nomination and Remuneration Committee of the Bank from 20 March 2017. The Nomination and Remuneration Committee of the Bank comprises six members, among whom three are independent non-executive directors. This does not comply with Rule 3.25 of the Hong Kong Listing Rules and the provisions of paragraph A.5.1 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules which require a majority of membership of the Nomination and Remuneration Committee to be independent non-executive directors.

9.5.3 Risk Management Committee

Our Risk Management Committee consists of 1 executive director, namely Mr. Ci Yaping, 1 non-executive director, namely Mr. Qiao Chuanfu, and 1 independent non-executive director, namely Mr. Wang Shihao. Mr. Wang Shihao is the chairman of the committee.

The principal responsibilities of the Risk Management Committee include:

- reviewing our risk management policies to ensure they are in line with our overall strategy, supervising and evaluating their implementation and effectiveness, and making relevant recommendations to our Board;
- providing guidance on establishing our risk management systems;
- supervising and evaluating the establishment, organizational structure, working procedures and effects of the risk management department, and making suggestions for improvement;
- considering our risk report, conducting regular assessments on risk policy, management status and risk tolerance of the Bank, and making suggestions on improving our risk management and internal control;
- supervising and assessing the risk control by our senior management in respect of credit, market and operation risks;
- examining and approving significant risk management matters or transactions that are beyond the authority of the president or submitted by the president to the Risk Management Committee for consideration, in accordance with the authorization of the Board.

During the Reporting Period, our Risk Management Committee held 4 meetings in total, at which issues related to work plan on risk limit management, risk supervision evaluation report, asset quality analysis report, compliance risk management report and credit policy execution report, etc. were studied.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.4 Related Party Transaction Control Committee

Our Related Party Transaction Control Committee consists of 3 independent non-executive directors, namely Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel and Mr. Zhu Hongjun. Mr. Zhang Shenghuai is the chairman of the committee.

The principal responsibilities of the Related Party Transaction Control Committee include:

- identifying related parties and connected persons, the relationship among them and with us and related party transactions and connected transactions, managing the risks arising from related party transactions and connected transactions;
- identifying and reviewing significant related party transactions and connected transactions, and submitting the same to the Board for consideration;
- formulating our rules for the management of related party transactions and connected transactions;
- submitting to the Board, upon completion of each year, a detailed report of the overall status, risk analysis and structure of our related party transactions and connected transactions that occurred in the year.

During the Reporting Period, our Related Party Transaction Control Committee held 4 meetings in total, at which it considered resolutions including business plans related to ordinary connected transactions and status report of the connected transactions.

9.5.5 Audit Committee

Our Audit Committee consists of 1 non-executive director, namely Mr. Zhang Feifei; and 2 independent non-executive directors, namely Mr. Zhu Hongjun and Mr. Dai Genyou. Mr. Zhu Hongjun is the chairman of the committee, and has the appropriate professional qualifications in accounting or relevant financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules.

The principal responsibilities of the Audit Committee include:

- examining our financial statements, annual report and accounting records, interim report and quarterly reports (if drafted for publication), reviewing significant opinion on financial reporting contained in accounting statements and financial reports and other information related to our business operation, and conducting an audit on our operating efficiency, profit distribution and capital utilization;
- checking the letter of recommendations for management (or any equivalent document) given by an external auditor to the senior management and ensuring that the Board responds to it in a timely manner, and reviewing any major questions raised by the external auditor to the senior management with respect to our accounting records, financial accounts or monitoring system, and any responses given by the senior management;

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9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.5 Audit Committee (Continued)

- reviewing our disclosure made at the general meeting and to the public, and verifying the truthfulness, legality, completeness, and accuracy of our financial reports, capital utilization reports and major events;
- reviewing our internal control and financial control systems, and auditing our significant related party transactions, monitoring the implementation of our risk management system and its compliance, discussing the internal control system with the senior management and reporting it to the Board. Reviewing major investigation findings on matters relating to the internal control system as delegated by the Board or on its own initiative and the senior management's response to these findings;
- overseeing the implementation of our internal audit system;
- organizing and guiding the internal audit under the authorization of the Board;
- taking in charge of our annual audit, making recommendations to the Board on the appointment, reappointment or removal of the external auditor, and preparing reports confirming the truthfulness, accuracy, completeness and timeliness of information contained in the audited financial statements based on its own judgment, and submitting them to the Board for discussion and consideration. The Audit Committee should require the appointed external auditor to give an explanation on their services provided, terms of appointment, fees charged and other relationships or matters that may affect the independence of such external auditor, make an evaluation on the independence of external auditor and submit it to the Board for approval. The Audit Committee should deal with any issue related to the resignation or removal of the external auditor;
- reviewing our financial and accounting policies and practice;
- taking charge of the communication and coordination between the internal auditor and external auditor, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Bank;
- evaluating the mechanisms for our employees to make whistle blowing on financial statements, internal control or other irregularities, and conducting independent and fair investigations on matters relating to whistle blowing by us, and adopting any mechanism for appropriate actions.

During the Reporting Period, our Audit Committee held 2 meetings in total, at which it considered resolutions on the 2016 annual report, the 2016 annual profit distribution plan, the 2017 interim report, appointment of external auditors and the 2017 audit plan etc. The Audit Committee reviewed the 2016 annual report and the 2017 interim report, discussed the key accounting policies, accounting estimates and internal control with the management. Besides, it also communicated with the external auditors and the management regarding the audit opinion and suggestions for internal control as proposed by the external auditors, reviewed and approved the 2016 annual report and the 2017 interim report of the Bank and then submitted them to the Board for consideration.

Chapter IX Corporate Governance Report

9.6 CORPORATE GOVERNANCE FUNCTION

During the Reporting Period, the Board of Directors took the responsibilities of corporate governance as follows:

- revising and improving rules and regulations related to the Bank's corporate governance, and making necessary changes to ensure the effectiveness of the policy;
- supervising the training of directors and senior management and their sustained performance;
- supervising the policies and practice of the Bank with respect to the compliance with laws and regulations;
- supervising the code of conduct and compliance manual applicable to directors and employees;
- reviewing the Bank's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures set out in the corporate governance report.

9.7 MANAGEMENT

The Bank shall have 1 president and may have several vice presidents. They shall be appointed or dismissed by the Board of Directors. The president shall be accountable to the Board of Directors.

The president of the Bank shall perform and exercise the following functions and powers: take charge of the daily operation and management of the Bank, organize the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors; submit annual business plans and investment proposals to the Board of Directors and organize the implementation upon approval by the Board of Directors; draft proposals on the establishment of the Bank's internal management entities; draft the Bank's basic management system; formulate the Bank's specific regulations; propose to the Board of Directors to engage or dismiss the vice presidents and other members of senior management of the Bank; engage or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors; authorize members of senior management and persons in charge of internal departments and branches to conduct operational activities; draw up the Bank's proposals on annual financial budgets and final accounts, profit distribution plan and loss remedial plan, increase or reduction of registered capital, issue and listing of bonds or negotiable securities, and put forward the proposals to the Board of Directors; review and approve general related transactions; decide on the appointment and dismissal of the Bank's staff, and approve proposals on their wages, benefits, rewards and punishment; formulate plans on emergency treatment and risk prevention; adopt emergency measures when any major emergency arises and promptly report them to the Board of Directors, the Board of Supervisors and the banking regulatory authority; and other powers and rights conferred by the laws, administrative regulations, departmental rules, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

9.8 BOARD OF SUPERVISORS

The Board of Supervisors, our supervisory body, aims to guarantee the legitimate interests of the Bank, shareholders, employees, creditors and other stakeholders and has the obligation to oversee our financial activities, risk management and internal control, discharge of duties by the Board and its members and the senior management, and is accountable to the general meeting of shareholders.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.1 Composition of the Board of Supervisors

As at the end of the Reporting Period, our Board of Supervisors currently consists of 8 supervisors, of whom 2 are shareholder supervisors, 3 are employee supervisors and 3 are external supervisors. The structure of our Board of Supervisors is reasonable, and is sufficiently professional and independent to ensure the effective performance of its supervisory role. For the biographical details of members of the Board of Supervisors, please see "Profile of Directors, Supervisors and Senior Management" under section 8.3 of this annual report.

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

9.8.2 Responsibilities and operating model of the Board of Supervisors

The principal responsibilities of our Board of Supervisors include: (1) reviewing periodic reports of the Bank prepared by the Board and providing written review opinions; (2) supervising the discharge of duties by the Board of Directors and the senior management; (3) monitoring the due diligence of directors, the chairman of the Board of Directors and the senior management and their violation of laws, administrative regulations as well as the Articles of Association when discharging their duties; (4) conducting resignation audits of our directors and the senior management when necessary; (5) requesting directors and the senior management to rectify any acts that are detrimental to the interest of the Bank; (6) examining and supervising financial activities of the Bank; (7) supervising and examining our business decision-making, risk management and internal control and monitoring rectification of the deficiencies; (8) proposing to remove, or instituting proceedings according to law, against directors and the senior management who are in violation of laws, administrative regulations or the Articles of Association or any resolutions adopted by shareholders' general meetings; (9) proposing for an extraordinary meeting of shareholders; convening and presiding over shareholders' general meetings when the Board of Directors fails to perform its duties in accordance with the Company Law; (10) putting forward proposals to shareholders' general meetings; (11) proposing for an extraordinary meeting of the Board; (12) reviewing the financial report, business report and profit distribution plans and other financial information submitted to shareholders' general meetings. The Board of Supervisors may conduct investigation when any question or abnormal operation of the Bank is identified; it may, at the expenses of the Bank, hire an accounting firm, law firm or other professional personnel to assist its investigation when necessary; (13) making remuneration arrangement of supervisors; (14) other functions and powers granted by laws, administrative regulations, departmental rules, relevant regulators and the Articles of Association, as well as shareholders' general meetings.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.2 Responsibilities and operating model of the Board of Supervisors (Continued)

Our Board of Supervisors fulfills their supervisory responsibilities mainly in the following manners: convening regular supervisor meetings, attending shareholders' general meetings, attending the Board meetings and some Board committee meetings, attending the relevant meetings of the senior management, review of various kinds of documents and materials from the senior management, listening to work report and project report of the senior management, evaluating the annual performance of directors and the senior management, conducting resignation audits of our executive directors and the senior management, conducting on-site inspection of invested institution annually, conducting investigation and research on branches, carrying out a variety of special investigation etc. Through the above work, the Board of Supervisors monitors and evaluates our operation and management, risk management and internal control, as well as the performance of directors and the senior management.

During the Reporting Period, the Board of Supervisors assessed the annual performance of the Board of Directors, directors, the senior management and supervisors of the Bank, and held the symposiums of shareholders' representatives and persons in charge of the head office and sub-branch offices to elicit various comments and conduct on-site evaluation. Based on the foregoing, the Board of Supervisors prepared a performance evaluation report and feedback for the Board of Directors and the senior management as well as relevant banking regulatory bodies.

9.8.3 Meetings of the Board of Supervisors during the Reporting Period

During the Reporting Period, the Board of Supervisors duly fulfilled its duties under the Articles of Association of the Bank and held 8 meetings, of which 4 were on-site, 4 were circulating written documents, at which 36 resolutions were considered.

During the Reporting Period, there was no objection to the matters concerning the supervision of the Board of Supervisors.

The attendance of supervisors at meetings during the Reporting Period

	No. of Required Attendance	Attendance in Person	Attendance through Proxy
Zhang Renfu	8	8	0
Xu Chongding	8	8	0
Zhou Tong ⁽¹⁾	8	8	0
Cheng Rulin	8	8	0
Qian Xiaojun ⁽¹⁾	8	4	4
Li Ruifeng ⁽¹⁾	5	5	0
Cheng Junpei	8	7	1
Fan Libo ⁽¹⁾	3	3	0
Pan Shujuan	8	8	0
Yang Mianzhi ⁽¹⁾	5	5	0

Note: (1) For details of position changes of Ms. Zhou Tong, Mr. Qian Xiaojun, Mr. Li Ruifeng, Mr. Fan Libo and Mr. Yang Mianzhi, please refer to "Changes in Directors, Supervisors and Senior Management of the Bank" under section 8.2 of this annual report.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.4 Attendance at the general meetings during the Reporting Period

During the Reporting Period, the Board of Supervisors designated representatives to attend the general meeting of the Bank. Mr. Zhang Renfu as the chief scrutineer, supervised legal compliance of the content of meetings, procedures of meetings, as well as the voting process on-site. The Board of Supervisors presented its annual report on work and results of performance appraisal of Supervisors, which were approved at the meeting.

9.8.5 Attendance at the meetings of the Board and the senior management

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

9.8.6 Operation of the committees of the Board of Supervisors

The Board of Supervisors has a Nomination Committee and a Supervisory Committee, compositions of which are as follows:

No.	Committees of the		
	Board of Supervisors	Chairman	Members
1	Nomination Committee	Cheng Junpei	Zhang Renfu, Xu Chongding, Pan Shujuan, Li Ruifeng
2	Supervisory Committee	Pan Shujuan	Zhang Renfu, Tang Chuan, Cheng Rulin, Yang Mianzhi

Nomination Committee of the Board of Supervisors

The principal responsibilities of the Nomination Committee include:

- (I) formulating the selection standards and procedures of supervisors, and making recommendations to the Board of Supervisors;
- (II) preliminarily reviewing the qualifications and conditions of candidates for supervisors and making recommendations to the Board of Supervisors;
- (III) improving market-oriented selection and appointment mechanism, and making reservation of candidates for supervisors;
- (IV) conducting a comprehensive assessment and evaluation of duties performance of directors and senior management, and reporting it to the Board of Supervisors;
- (V) supervising the process of election and appointment of directors;

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9.8 BOARD OF SUPERVISORS (Continued)

9.8.6 Operation of the committees of the Board of Supervisors (Continued)

Nomination Committee of the Board of Supervisors (Continued)

- (VI) supervising the scientificity and reasonableness of the remuneration management system and policies of the Bank and the remuneration proposal for its senior management;
- (VII) determining the remuneration standards for supervisors and subsidy standards for external supervisors, and making recommendations to the Board of Supervisors in respect thereof;
- (VIII) establishing and improving the incentive and control system, conducting an assessment and evaluation of duties performance of supervisors, and making recommendations to the Board of Supervisors in respect thereof;
- (IX) ensuring that supervisors shall not participate in the decision-making process in connection with the evaluation of their duties performance and remuneration (or subsidies), save for the self-assessment in the evaluation of duties performance;
- (X) other matters authorized by the Board of Supervisors.

The Nomination Committee held a total of 5 meetings in 2017, at which 18 resolutions were considered and approved.

Supervisory Committee of the Board of Supervisors

The principal responsibilities of the Supervisory Committee include:

- (I) formulating plans for supervision of duties performance of Board of Directors and the senior management of the Bank, and supervising the adoption by the Board of Directors of prudent business philosophy, value standards and formulating development strategies that are in line with the actual situations of the Bank;
- (II) formulating plans for supervision of the due diligence of directors and the senior management of the Bank;
- (III) formulating plans for resignation audits of executive directors and the senior management of the Bank;
- (IV) formulating plans for the inspection and supervision of financial activities of the Bank;
- (V) formulating plans for supervision and inspection of the business decision-making, risk management and internal control of the Bank;
- (VI) formulating plans for assessing the scientificity, reasonableness and effectiveness of development strategies set by the Board of Directors;

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.6 Operation of the committees of the Board of Supervisors (Continued)

Supervisory Committee of the Board of Supervisors (Continued)

- (VII) taking charge of the organization and implementation of the above (I) to (VI) plans;
- (VIII) other matters authorized by the Board of Supervisors.

In 2017, the Supervisory Committee held 6 meetings in total, at which 17 resolutions were considered.

9.8.7 External supervisors work report

Chairman of the Board of Supervisors committees are served by external supervisors, which strengthens the role of external supervisors in performance assessment, internal control and other aspects of independent oversight functions, and plays a positive role in improving the management quality and governance structure.

In 2017, external supervisors actively participated in meetings, carefully studied and actively participated in discussions and decision-making of each issue, considered each issue from the perspective of the sustainable development of the Bank and protection of its shareholders' interests, carefully gave independent opinions, and fulfilled the responsibilities of external supervisors according to laws.

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

Training and research of directors

Some of the directors studied the training materials prepared by Latham & Watkins with respect to latest development in the compliance of listed companies in Hong Kong in December 2017.

Some of the directors took part in the "Year for Developing New Finance" research in the first half of 2017 and visited the Hefei Branch, the Huangshan Branch and the Ma'anshan Branch.

Some of the directors took part in the comprehensive financing of emerging strategic industries and SME financial research conducted by the Bank in the second half of 2017 and visited the Huaibei Branch and the Bozhou Branch.

Some of the directors took part in a training session held by the Bank in March 2018 on macroeconomic trends, Party construction work in state-owned enterprises, Provisional Measures for Administration of Equity of Commercial Banks and corporate governance.

Investigation, research and training of the Board of Supervisors

During the Reporting Period, the Board of Supervisors commenced special investigation on the management of capital expenditure items (IT) of the Bank, and then prepared reports based on findings. Some of the Bank's supervisors participated in the investigation.

During the Reporting Period, the Board of Supervisors launched inspections over Wuwei Huiyin Rural County Bank Co., Ltd, Jinzhai Huiyin Rural Bank Co., Ltd, and Huiyin Financial Leasing Co., Ltd. Some of the Bank's supervisors participated in the inspections.

During the Reporting Period, the Board of Supervisors invited experts of regulatory authorities to carry out special training on the topic of "Interpretations of regulatory policies and requirements on regulatory practices". Some of the supervisors of the Bank took part in the training.

Chapter IX Corporate Governance Report

9.10 COMPANY SECRETARY UNDER HONG KONG LISTING RULES

Dr. Ngai Wai Fung is the Bank's company secretary under the Hong Kong Listing Rules. Dr. Ngai Wai Fung is a director and the chief executive officer of SW Corporate Services Group Limited. Dr. Ngai took part in relevant professional trainings for no less than 15 hours during the Reporting Period. Mr. Yi Feng, assistant to the president and secretary to the Board of the Bank, was the primary contact of Dr. Ngai during the Reporting Period.

9.11 ILLEGAL ACT REPORTS AND ALLEGATIONS (COMPLIANCE DEPARTMENT)

In 2017, the Bank did not have any material internal disputes.

9.12 COMMUNICATION WITH SHAREHOLDERS

Investors relationship

We place great importance over the Bank's shareholders' opinions and suggestions. We actively take part in all kinds of communication activities with investors and analysts in order to maintain a good relationship, and meet reasonable requirements by the shareholders in a timely manner.

For investors inquiries, please contact the Board of Directors at:

The Office of the Board of Directors of Huishang Bank Corporation Limited
Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC

Telephone: +86-551-62667787

Fax: +86-551-62667787

E-mail: djb@hsbank.com.cn

Investors can read this annual report from our website (www.hsbank.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

Information disclosure

The Board of Directors and senior management of the Bank place great importance to the information disclosure. They rely on good corporate governance and internal control to provide timely, accurate and fair information for the investors. During the Reporting Period, no insider dealing of the Bank's shares was identified.

In accordance with the requirement of "Measures for the Information Disclosure of Commercial Banks", the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the Reporting Period, the full texts of the annual report and interim report in both English and Chinese are available on the website of the Bank. Meanwhile, the Chinese and English versions of the annual report and interim report are available for review by the investors and stakeholders in the Board of Directors' office of the Bank.

Chapter IX Corporate Governance Report

9.13 SHAREHOLDERS' RIGHTS

Convening extraordinary shareholders' meetings

When individual or joint shareholders of the Bank who have more than 10% of voting right present a written request, the Board of Directors shall hold an extraordinary shareholders' general meeting within 2 months from the date of the request:

The shareholders shall put forward proposals to the Board in writing. The Board of Directors shall, in accordance with laws, administrative regulations and the Articles of Association of the Bank, give a written feedback expressing an opinion of agreements or disagreements with the convening of an extraordinary shareholders' general meeting or a class shareholders meeting within 10 days from the date of receiving the proposal.

If the Board of Directors agrees to convene an extraordinary general meeting or class shareholders' meeting, it should issue a notice to call for a shareholders' general meeting within 5 days from the date on which the relevant Board resolution is made. Any amendments to the original proposal in the notice should obtain the consent from the shareholders of the Bank who initiated such proposals.

Proposing resolutions at shareholders' general meeting

Shareholders individually or jointly holding more than 3% of the voting shares of the Bank may make provisional proposal to the shareholders' general meeting and submit written request to the convener 10 days before the meeting. The convener shall issue a supplementary notice of the general meeting within 2 days after receiving the proposal. The contents of the provisional proposal will be announced.

Shareholders individually or jointly holding more than 3% of the voting shares of the Bank may propose candidates for directors to the Board of Directors or to propose candidates for supervisors to the Board of Supervisors.

Shareholders individually or jointly holding more than 1% of the outstanding voting shares of the Bank may nominate candidates for independent directors to the Board, who can be elected at shareholders' general meeting as independent directors. Those shareholders who have nominated directors shall not nominate independent directors.

Shareholders individually or jointly holding more than 1% of the outstanding voting shares of the Bank may nominate candidates for external supervisors, who will be elected at shareholders' general meeting as external supervisors.

Convening extraordinary Board meetings

When shareholders individually or jointly holding more than 10% of the total voting shares raise a proposal, the chairman of the Board of Directors shall, within 10 days after receiving the proposal, call for and preside over an extraordinary board meeting.

Chapter IX Corporate Governance Report

9.13 SHAREHOLDERS' RIGHTS (Continued)

Making inquiries to the Board

Our shareholders are entitled to supervise the business activities of the Bank, make recommendations or inquiries.

Shareholders are entitled to access to the following information in accordance with the laws, administrative regulations, departmental rules, normative documents, relevant regulations of the securities supervision authorities of the place(s) where the shares of the Bank are listed, and the provisions of the Articles of Association, including:

1. Obtaining the Articles of Association of the Bank upon the payment of costs;
2. Inspecting, free of charge, or having the right to inspect and copy the following documents upon the payment of reasonable costs:
 - (1) the register of all shareholders;
 - (2) personal information of directors, supervisors and the senior management of the Bank;
 - (3) the Bank's share capital;
 - (4) report showing the total nominal value, quantity, highest and lowest prices of each class of shares repurchased by the Bank since the previous financial year and all costs paid by the Bank in this regard;
 - (5) minutes of shareholders' general meetings;
 - (6) the latest audited financial statements, and reports of the Board of Directors, auditors and the Board of Supervisors.

Shareholders who request to inspect or obtain any such information shall provide written documentation to the Bank, certifying the type of shares they held in the Bank as well as the number of their shareholdings. The Bank shall provide such documentation as required by shareholders after their identities are verified.

Chapter IX Corporate Governance Report

9.14 APPOINTMENT OF CERTIFIED PUBLIC ACCOUNTANTS

The Resolution on Appointment of External Auditors for 2017 was considered and approved at the first meeting of the Audit Committee of the Bank in 2017 held on 16 March 2017 and at the twenty-seventh meeting of the third session of Board held on 23 March 2017, and was then considered and approved at 2016 annual general meeting held on 22 June 2017. The Bank has appointed Ernst & Young Certified Public Accountants (Special General Partnership) as our domestic auditor and Ernst & Young as our international auditor for the year of 2017 respectively.

In view that our former accountant firm PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) had served consecutively as the Bank's external auditor for a period reaching the limit provided in the Measures for Financial Enterprises to Select and Employ Accounting Firms (No.12 [2016] of the Ministry of Finance) issued by Ministry of Finance of the PRC, PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) ceased to be the external auditor of the Bank.

In 2017, the total remuneration paid to Ernst & Young Certified Public Accountants (Special General Partnership) and Ernst & Young for review of the interim financial statements, audit of the annual financial statements and A share IPO related service as agreed by the Bank and other remuneration (asset securitization fees) amounted to RMB6.83 million and RMB0.3 million, respectively.

9.15 AMENDMENTS TO THE ARTICLES OF ASSOCIATIONS OF THE BANK

At the twenty-seventh meeting of the third session of the Board held on 23 March 2017, the Resolution on the Amendment of the Articles of Associations of Huishang Bank Corporation Limited (A Shares + Preference Shares) was considered and approved. The resolution was also considered and approved at the 2016 annual general meeting held on 22 June 2017. According to the Securities Law of the People's Republic of China, Guidelines on Articles of Association of Listed Companies, Guiding Opinions of the State Council on Carrying out the Pilot Program of Preference Shares, Guiding Opinions on Preference Shares Issuance of Commercial Banks to Replenish Tier – 1 Capital by CBRC and CSRC and relevant laws, regulations and other normative documents and by reference to the Administrative Measures on the Pilot Scheme of Preference Shares, the Bank amended some provisions in the Articles of Associations of Huishang Bank Corporation Limited based on its practical circumstances. The amendments to the Articles of Associations will come into effect upon the listing of the A shares of the Bank.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT

1. Procedures for identification, evaluation and management of material risks

Pursuant to the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and its schedules issued by the CBRC, the definition of risk and relevant terminology issued by Basel Committee and practices of other banks in the PRC and overseas, the Bank has made overall identification of a series of potential quantifiable and non-quantifiable risks arising from the coupled effect of business strategies, product mix, clients' needs and external macro-economy environment and measurement and control of existing risks based on its own circumstances.

Through collecting and issuing risk alerts, setting examples of and identifying, gathering and evaluating risk events and specifying key risks based on capital allocation to risk categories, regulatory identification of potential risks and requirements on capital for banks and identification and evaluation of risk events, the Bank annually selects the sensitive areas, key branches and key potential risks to carry out the risk identification and evaluation and covers the overall risk areas triennially. Besides, the Bank makes supplement or revision to relative systems according to the evaluation results. Such key potential risks include credit risk, market risk, operational risk, liquidity risk, bank account interest rate risk, compliance risk, legal risk, reputation risk and strategic risk, which were quantified and evaluated through specific measurement methods and tools.

2. Key features of risk management system of the Bank

(1) Systemic structure

The Bank has a comprehensive risk management information system mainly comprised of three layers, namely business application, risk analysis and midway data.

1. The business application includes: the core system, credit management system, credit card related systems, capital transaction system, risk mitigation management system and loss database.
2. The risk analysis includes: the internal rating system on corporate clients, retail internal rating/rule engine tools, market risk management information system, asset and liability management system, portfolio risk quota management system, asset impairment provision system and tools for measuring associated risks among the systems.
3. The midway data includes: corporate database for storing and pooling business-related data of the whole Bank for easy indexing data in details.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT (Continued)

2. Key features of risk management system of the Bank (Continued)

(II) Key features

The risk management system of the Bank was designed and developed by customizing practices of advanced domestic banks based on its strategic development planning and practical circumstances, with key features as follows:

1. Sound systems and data supported mechanisms under the comprehensive risk management system to underpin relevant decision-making on risk management of the Bank;
2. Collection, records and storage of relevant data to a certain breadth and depth with emphasis on completeness, accuracy and truthfulness to support the internal rating system, calculation of capital and relevant management and regulatory reporting of the Bank;
3. Tools improving systems of the Bank to support risk measurement and calculation of capital;
4. A sound data management system of the Bank to ensure the accuracy, completeness and adequacy of risk management data.

3. Key features of internal control system

The Bank attaches great importance to the implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines and the “Guidelines for Internal Control of Commercial Banks” in a consistent manner, and has continued establishing the internal control management system from five key aspects in three layers, including corporate governance, business line management and procedural operation – which horizontally cover our business processes and management activities of various business lines and vertically cover the managing bodies of the head office, branches and sub-branches and all employees. The internal control management structure was equipped with well-defined duties and responsibilities which clarified internal control management duties of the Board, the Board of Supervisors and senior management and three defense lines. Under the structure, the Board of Directors was responsible for ensuring the Bank to establish and implement adequate and effective internal control system, the Board of Supervisors was responsible for overseeing the establishment and implementation of internal control by the Board of Directors and senior management, and the senior management was responsible for organizing the day-to-day internal control operation of the Bank. The Bank strengthened its management of the operation of the internal control system by regularly reorganizing internal control and relevant self-assessment to identify the issues and deficiencies in the implementation thereof. Through prompt rectifications and corrections on internal control, the Bank continuously improved and optimized its internal control system so as to support its business development. The Bank has also established an internal control compliance risk management system covering three key modules, namely internal control, compliance management and legal affairs, which enables the Bank to basically achieve a new compliance management model featured by systems, procedures and information technologies. The use of such systems has enabled the Bank to make use of information and digital technologies in its internal control management, strongly supporting the breadth and depth of internal control compliance analysis.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT (Continued)

4. Risk management duties of the Board

The Board of the Bank has formulated the “Measures on Market Risk Management for Huishang Bank (for Trial Implementation)”, “Basic Norms of Internal Control for Huishang Bank (for Trial Implementation)” and other rules on the basis of laws and regulations such as the “Guidelines for Internal Control of Commercial Banks” and other laws and regulations, as well as the relevant requirements of the Hong Kong Stock Exchange in order to establish and implement a risk management and internal control system and undertake prompt review of the effectiveness of such systems. The Board of the Bank are of view that, the risk management and internal control system established and implemented by the Bank are sufficient and effective. The purpose of the risk management and internal control system of the Bank is to manage rather than eliminate such risks as would prevent the Bank from achieving its business goals, and such system reasonably (rather than absolutely) ensures that there would not be any material misrepresentation or loss.

9.17 PROCEDURES AND REGULATORY MEASURES FOR HANDLING INSIDER INFORMATION

The Bank places great importance on insider information management. In order to strengthen relevant confidentiality and protect the legitimate interests of investors by maintaining fairness with regard to information disclosure, the Bank formulated the Insider Information and Insider Management System of Huishang Bank Corporation Limited and the Measures on Information Disclosure Management of Huishang Bank Corporation Limited pursuant to domestic and offshore laws and regulations such as the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, Rules on Establishment of Insider Registration and Management System of Listed Companies, Measures for the Information Disclosure of Commercial Banks, the Hong Kong Listing Rules and other regulatory documents including laws and regulations and listing rules on securities or other regulatory documents of places and stock exchanges where the securities of the Bank are listed.

Pursuant to laws and regulations of places where the securities of the Bank are listed, the Insider Information and Insider Management System of Huishang Bank Corporation Limited expressly provides for the scope of operational, financial or other information that may have a material impact on the market price of securities of the Bank but has not yet been made available on any media for information disclosure designated by securities regulating authorities and the definition of insiders in connection thereof, as well as detailed requirements on management of insiders, confidentiality of such information and punishment measures for divulgence thereof.

The Bank discloses its information in strict accordance with regulatory requirements. The Measures on Information Disclosure Management of Huishang Bank Corporation Limited expressly provide for basic principles of information disclosure, including the disclosure principles in prospectuses, offering circulars, listing documents, regular reports and interim reports, and explicitly requires that information disclosure of the Bank be unifiedly managed and undertaken by the Board, while the chairman and the president be the persons ultimately responsible and the secretary to the Board be the main person-in-charge. The Measures also provide for detailed requirements on information disclosure duties of directors, supervisors, senior management and persons-in-charge of branches.

As the general administrative body with respect to information disclosure, the office of the Board of Directors has always strictly complied with domestic and offshore regulatory requirements, kept strengthening system management and promptly and appropriately disclosed relevant information.

Chapter X Internal Control

10.1 INTERNAL CONTROL

10.1.1 Internal control system and operation

Operating in compliance with regulations and under stable development, the Bank followed the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines, internal and external laws and regulations such as the “Commercial Banks Internal Control Guidelines” and “Basic Norms of Internal Control for Huishang Bank”, as well as the relevant requirements of the Hong Kong Stock Exchange to clarify the objectives, principles and organization of the internal control system, thereby setting up an internal control system comprised of five key elements, namely the internal environment, risk assessment, control activities, information and communication, and internal monitoring. The Bank has clearly defined the objectives, principles and organizational system of internal control through internal control system infrastructure; exerted full control over the whole process of various operation and management of the Bank; and in the course of carrying out internal control, continued to enhance our internal control system so as to ensure the compliant and steady development of the Bank.

Pursuant to the relevant national laws and regulations, the Bank established a standard corporate governance structure and rules of procedure; and formed a scientific and effective segregation of duties as well as a checks and balances mechanism. The Board of Directors of the Bank takes ultimate responsibility for the establishment of the internal control system as well as the effectiveness of its implementation. The Board of Supervisors is in charge of overseeing the Board of Directors and senior management to establish and improve the internal control system; and overseeing the Board of Directors and the directors, senior management and senior officers to perform their duty of internal control. Senior management is responsible for execution of the internal control system and policies approved by the Board of Directors. The operational management departments at all levels and sales networks form the “first-line defense of internal control” of the Bank, which take on the primary responsibility of developing and implementing internal control. The internal control management position in each functional department of the head office and branches and the compliance management departments at all levels comprise the “second-line defense of internal control”, providing guidance and supervision on the development and implementation of the first-line defense of internal control as well as reporting to the management on the establishment and implementation of the internal control system of the Bank. Being the “third-line defense of internal control”, the audit department monitors and checks the effectiveness of internal control.

During the Reporting Period, the Bank launched campaigns such as “Better Management Year”, Annual Case Prevention Work Assessment for 2017, Compliance Risk Identification and Assessment for 2017 and Assessment on Anti-money Laundering for 2017. In coordination with CBRC Anhui Office, the Bank completed the Inspections on Implementation of Risk Control Responsibility towards the Board of Directors, the Board of Supervisors and the senior management, and further improved the market risk, credit risk and operational risk management systems. Therefore, the internal control system operated effectively. In addition, all management units in the head office and branches of the Bank conducted self-assessment on the internal control for 2017. After inspection by the Board, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were identified.

Chapter X Internal Control

10.1 INTERNAL CONTROL (Continued)

10.1.2 Implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner

The Bank places great importance to the implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner. Firstly, it has defined internal control and management systems and internal control duties of the operational divisions, business lines management department and compliance department to further clarify the relevant organizational structure and duty allocation of internal control. Secondly, the Bank formulated a pragmatic and operations-oriented internal control manual of innovative business. It defined the basic requirement and duty allocation of internal control in innovative business, optimized product (service) operations flow, identified risk points and control measures requiring special attention during the business procedures, established flow and risk control measures, and clarified the relationship between internal and external regulatory frameworks, thus effectively ensuring the business operation in compliance with laws. Thirdly, the Bank established and improved the management system of employee conduct. By rationalizing the status quo of employee conduct management and the management system and issuing the Notice Regarding Further Strengthening Employee Conduct Management, the Bank identified the responsible party for employee conduct management and key control points of employee conduct, while improving the unusual trading monitoring system of employees to systematically investigate the unusual trading in employees’ accounts. Fourthly, it has organized bank-wide self-assessments on internal control for 2017, covering business categories, key business lines and six branches of the Bank. Based on results of the self-assessment, the design and execution of the internal control of the Bank were good, with basically sound internal control mechanisms and effective execution of control measures.

Chapter X Internal Control

10.2 INTERNAL AUDIT

We have implemented an internal audit system, set up an internal audit department which consists of four audit segments by region, and established independent and vertical management system for audit as well as the corresponding reporting system and lines for internal audit, which enabled the establishment of a complete internal audit system comprised of detailed standards, internal requirements and work manual based on internal control audit rules. We have established an audit model which combines on-site audit and off-site monitoring. We have formulated audit plan and annual audit plan and carried auditing activities efficiently in accordance with the audit plan and annual plan approved by the Board of Directors.

The internal audit department is responsible for auditing and supervising our financial revenue and expenditures and business activities, investigating, evaluating and facilitating our business activities, risk profile, internal control and corporate governance status through systematic and standardized methods with a view to promoting our sound development. The internal audit department shall report to the Board of Directors, the Board of Supervisors and the senior management regularly on audit work.

In 2017, the internal audit department continued to adhere to the audit philosophy of “risk-oriented, service-teneted and appreciation-aiming” and act around our overall development strategy to speed up the transformation and upgrading of our internal audit, improve the audit organizational structure, enhance the audit and supervision capacity and play the role of internal audit with a view to achieving the head office’s overall work objectives of “Innovation-based transformation, enhanced quality and efficiency in management, and establishing innovative financing for the new economy focusing on the four major financials” for 2017. We have conducted on-site audit through various audit forms such as agency audit, special audit, economic responsibility audit and specific audit investigation, and implemented off-site monitoring through data analysis and inspection of suspicious circumstances to strengthen supervision of key businesses, key aspects, key risks and key positions. In addition, our internal audit department has put forward certain specific opinions on rectifications and recommendations for improvements, and enhanced the follow-up work to implement rectification measures, apply findings of the audit and further promote enhancement of our internal control and risk management as well as refinement of our management.

10.3 EVALUATION ON EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

At the end of 2017, as instructed by the audit committee under the Board, the Bank carried out internal control self-assessment for 2017 and issued a relevant report pursuant to requirements on internal control evaluation of commercial banks under “Commercial Banks Internal Control Guidelines” issued by the CBRC. The self-assessment represented an overall evaluation on the business, units and risk management policies of the Bank and the report was reviewed by the audit department. Huishang Bank 2016 Internal Control Assessment Report was considered by the audit committee and Board of the Bank respectively, which believed that this report has fully reflected the internal control situation of the Bank, and fully assessed internal control management and execution of various business lines and branches. The Board of the Bank has reviewed the 2017 internal control system of the Bank, and is of the view that such system is effective and adequate.

Chapter XI Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors supervised the Bank's internal control, risk management, financial activities, legal compliance of operations, as well as the performance of duties of the Board of Directors and senior management in accordance with the Company Law, Guidelines for the Corporate Governance of Commercial Banks, Guidelines for the Work of the Boards of Supervisors in Commercial Banks and the responsibilities defined by the Bank's Articles of Association.

The Board of Supervisors has expressed an independent opinion on following matters:

1. Operation in accordance with laws and regulations

During the Reporting Period, the Bank's operation and management complied with the provisions of laws and regulations such as the Company Law, regulatory requirements and the Articles of Association of the Bank. The decision-making procedures of the Board of Directors were standardized and in conformity with laws. The senior management operated and managed the Bank in compliance with laws and regulations, the authorizations of the Board of Directors and the Bank's rules and regulations.

2. The truthfulness of financial report

The Bank's 2017 annual financial report has been audited by Ernst & Young in accordance with the International Financial Reporting Standards and a standard audit report with unqualified opinions has been issued. The financial report truly, objectively and accurately reflects the Bank's financial activities and operating results.

3. Related party transactions

The Board of Supervisors is not aware of any related party transactions of the Bank occurring during the Reporting Period which would damage the interests of shareholders and the Bank.

4. Internal control

During the Reporting Period, the Bank insisted on the value of putting internal control as its priority, implemented regulatory requirements, launched campaigns such as "Resolving Three Acts of Arbitrage, Three Acts of Violations, Four Inappropriate Practices and Ten Irregularities" and "Strengthening the Three Bases and Attaining the Four Adequacies", and improved the self inspection, rectification and accountability of its deposit business. All these served to build a governing and organizational structure of internal control with clear division of labour, scope of duties and reporting relationships. No significant flaws in the completeness and reasonableness of the Bank's internal control were identified.

5. Risk management

During the Reporting Period, the Bank adhered to the risk management principle of "prudence, rationality and stability" and addressed both the symptoms and the root cause of a certain risk to ensure financial safety. It also focused on improving relevant policies and systems, strengthening the monitoring of risk warning, speeding up the disposal of risk assets and enhancing the standard of credit management to promote the effectiveness of comprehensive risk management and hence establish an all-inclusive risk management system. Various regulatory indicators of the Bank remain at a stable level. The overall risk exposure of the Bank was under control.

Chapter XI Report of the Board of Supervisors

6. Implementation of resolutions passed at general meetings

The Board of Supervisors had no objection to the reports and resolutions submitted by the Board of Directors to shareholders' general meetings in 2017 for review, and supervised the implementation of the resolutions adopted by general meetings. The Board of Supervisors was of the view that the Board of Directors had well implemented the relevant resolutions passed at general meetings.

By Order of the Board of Supervisors

Zhang Renfu

Chairman of the Board of Supervisors

March 23, 2018

Chapter XII Financial Report Independent Auditor's Report



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To the shareholders of Huishang Bank Corporation Limited

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 152 to 272, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Chapter XII Financial Report Independent Auditor's Report

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment assessment of loans and receivables

Key Audit Matter

The assessment of impairment of loans and receivables involves significant judgement. The Group adopts an individual impairment assessment approach for individually significant loans and receivables; and a collective impairment assessment approach for loans and receivables not individually significant or not individually impaired. Under the individual approach, the assessment of loans and receivables is based on the future cash flows, collateral security, collateral liquidation time and the discount rate. Under the collective approach, impairment recognised by performing migration model. The model is based on objective market influence and macro-economic environment. The calculation of impairment relies on the historical loss experience of loans and receivables and adjustments of credit risk coefficient. The credit risk coefficient is judged by the Group.

Since the loan and receivables impairment assessment involves judgements and assumptions, and in view of the significance of the amounts (As at 31 December 2017, gross loans and receivables amounted to RMB530.62 billion, representing 58.43% of total assets, and impairment allowance for loans and receivables amounted to RMB13.77 billion), we consider it as a key audit matter.

Relevant disclosures are included in Note 22 & Note 23 to the consolidated financial statements.

How our audit addressed the Key Audit Matter

We evaluated and tested the effectiveness of the design and operating of key controls relating to the credit approval process, post approval credit management, loans and receivables grading system, collateral monitoring and loans and receivables impairment assessment, including testing of relevant data quality and information systems.

We adopted a risk-based sampling approach in our loans and receivables review procedures. We assessed the debtors' repayment capacity and evaluated the appropriateness of the Group's loans and receivables grading, by reviewing post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.

We assessed the collective impairment model and considered management's assumptions on the loss identification period, migration rate, loss ratio, the impact of macro-economic changes and industry credit exposure adjustment for various types of loans and receivables portfolio. We evaluated the Group's modification of parameters and assumptions used in the collective impairment model, and compared them with historical loss data for loan portfolios, observable economic data, market information and industry trends.

We tested the discounted cash flow models and the related assessment by assessing the amount, timing and likelihood of estimated future cash flows, including cash flows from collateral. We compared the assumptions with available external information. Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

Chapter XII Financial Report Independent Auditor's Report

Consolidation and Assessment of Structured entities

Key Audit Matter

The Group has interests in various structured entities, such as bank WMPs, funds and trust plans, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has any control taking into consideration power arising from rights, variable returns, and link between power and returns.

The assessment of the Group's control over the structured entities involves significant judgement on factors such as the purpose and design of the structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fees, remuneration and exposure to loss from providing credit enhancement or liquidity support.

As at 31 December 2017, the value of non-guaranteed WMPs sponsored but unconsolidated by the Group due to lack of control amounted to RMB86.31 billion. As stated in the consolidated statement of financial position, the book value of unconsolidated structured entities referring to investments in other entities amounted at RMB283.62 billion. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by the management, it is considered as a key audit matter.

Relevant disclosures are included in Note 44 to the consolidated financial statements.

How our audit addressed the Key Audit Matter

We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls the unconsolidated structured entities.

We assessed the Group's analysis and conclusions on whether it controls structured entities based on the Group's analysis on its power over the structured entities, the magnitude and variability of variable returns from its involvement with the structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of the structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to the structured entities, as well as the fairness of transactions between the Group and the structured entities.

Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.

Chapter XII Financial Report Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Chapter XII Financial Report Independent Auditor's Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Chapter XII Financial Report Independent Auditor's Report

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

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young
Certified Public Accountants

Hong Kong
23 March 2018

Consolidated Statement of Profit and Loss

For the year ended 31 December 2017

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

	Notes	2017	2016
Interest income	6	39,416,255	32,701,942
Interest expense	6	(19,219,718)	(14,362,321)
Net interest income		20,196,537	18,339,621
Fee and commission income	7	3,043,589	2,631,188
Fee and commission expense	7	(199,918)	(140,052)
Net fee and commission income		2,843,671	2,491,136
Net trading (losses)/gains	8	(439,738)	75,976
Net losses on investment securities		(76,160)	(67,011)
Dividend income		640	2,770
Other operating income, net	9	(16,625)	75,917
Operating income		22,508,325	20,918,409
Operating expenses	10	(5,830,139)	(5,763,036)
Impairment losses on assets	13	(7,202,558)	(6,486,913)
Operating profit		9,475,628	8,668,460
Share of profits of associates		137,136	144,065
Profit before income tax		9,612,764	8,812,525
Income tax expense	14	(1,801,016)	(1,816,253)
Profit for the year		7,811,748	6,996,272
Net profit attributable to:			
Shareholders of the Bank		7,614,884	6,870,472
Non-controlling interests		196,864	125,800
		7,811,748	6,996,272
Earnings per share attributable to the shareholders of the Bank (express in RMB per share)			
Basic/Diluted	15	0.66	0.62

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	2017	2016
Profit for the year		7,811,748	6,996,272
Other comprehensive income			
Fair value changes on available-for-sale financial assets	43	(999,000)	(521,844)
Less: related income tax impact	43	249,750	130,461
Other comprehensive income for the year, net of tax		(749,250)	(391,383)
Comprehensive income for the year		7,062,498	6,604,889
Total comprehensive income attributable to:			
Shareholders of the Bank		6,865,634	6,479,089
Non-controlling interests		196,864	125,800
		7,062,498	6,604,889

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

Consolidated Statement of Financial Position

As at 31 December 2017

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

	Notes	As at 31 December 2017	As at 31 December 2016
Assets			
Cash and balances with the central bank	16	92,357,873	88,059,360
Deposits with banks and other financial institutions	17	9,699,833	10,960,598
Placements with banks and other financial institutions	18	3,553,288	19,319,720
Financial assets at fair value through profit or loss	19	2,695,099	5,742,117
Derivative financial assets	20	67,479	385,977
Financial assets held under resale agreements	21	36,027,487	516,183
Loans and advances to customers	22	305,208,545	269,336,141
Investment securities			
– available-for-sale	23	143,305,890	120,384,390
– held-to-maturity	23	61,128,401	52,351,451
– debt instruments classified as receivables	23	211,647,260	159,671,108
Investments in associates	24	971,050	538,646
Property, plant and equipment	25	1,943,330	1,719,242
Deferred tax assets	35	4,724,487	2,309,106
Finance lease receivables	26	26,269,575	18,199,109
Other assets	27	8,500,100	5,280,846
Total assets		908,099,697	754,773,994
Liabilities			
Borrowing from the central bank		1,500,000	5,000
Deposits from banks and other financial institutions	29	95,814,599	83,216,302
Placements from banks and other financial institutions	30	25,427,912	15,352,085
Derivative financial liabilities	20	747,449	4,643
Financial assets sold under repurchase agreements	31	74,930,675	32,619,242
Deposits from customers	32	512,808,182	462,014,409
Taxes payable	33	2,822,630	1,559,261
Debt securities issued	36	115,180,357	91,505,250
Other liabilities	34	19,655,807	15,314,484
Total liabilities		848,887,611	701,590,676
Equity			
Share capital	37	11,049,819	11,049,819
Other equity instruments	37	5,990,090	5,990,090
Capital reserve	37	6,751,041	6,751,041
Surplus reserve	38	7,953,301	6,536,297
General reserve	38	7,722,527	6,208,315
Investment revaluation reserve	43	(869,997)	(120,747)
Retained earnings		19,106,524	15,456,586
Equity attributable to shareholders of the Bank		57,703,305	51,871,401
Non-controlling interests		1,508,781	1,311,917
Total equity		59,212,086	53,183,318
Total equity and liabilities		908,099,697	754,773,994

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

Approved and authorised for issue by the Board of Directors on 23 March 2018.

Wu Xuemin
Chairman

Sheng Hongqing
Assistant President

Li Dawei
Head of Finance Department

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

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

	Equity attributable to shareholders of the Bank								
	Share	Other	Capital	Surplus	General	Investment	Retained	Non-	Total equity
	capital	equity	reserve	Reserve	reserve	revaluation	earnings	controlling	
	Note 37	Note 37	Note 37	Note 38	Note 38	Note 43		interests	
As at 1 January 2017	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,456,586	1,311,917	53,183,318
(1) Comprehensive income									
Profit for the period	-	-	-	-	-	-	7,614,884	196,864	7,811,748
Other comprehensive loss, net of tax	-	-	-	-	-	(749,250)	-	-	(749,250)
Total comprehensive income for the period	-	-	-	-	-	(749,250)	7,614,884	196,864	7,062,498
(2) Changes in share capital									
(3) Profit distribution									
Dividends	-	-	-	-	-	-	(1,033,730)	-	(1,033,730)
Appropriation to surplus reserve	-	-	-	1,417,004	-	-	(1,417,004)	-	-
Appropriation to general reserve	-	-	-	-	1,514,212	-	(1,514,212)	-	-
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(869,997)	19,106,524	1,508,781	59,212,086
As at 1 January 2016	11,049,819	-	6,751,041	5,249,966	4,716,293	270,636	13,121,389	1,186,117	42,345,261
(1) Comprehensive income									
Profit for the period	-	-	-	-	-	-	6,870,472	125,800	6,996,272
Other comprehensive loss, net of tax	-	-	-	-	-	(391,383)	-	-	(391,383)
Total comprehensive income for the period	-	-	-	-	-	(391,383)	6,870,472	125,800	6,604,889
(2) Changes in share capital									
Other equity instruments issued	-	5,990,090	-	-	-	-	-	-	5,990,090
(3) Profit distribution									
Dividends	-	-	-	-	-	-	(1,756,922)	-	(1,756,922)
Appropriation to surplus reserve	-	-	-	1,286,331	-	-	(1,286,331)	-	-
Appropriation to general reserve	-	-	-	-	1,492,022	-	(1,492,022)	-	-
As at 31 December 2016	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,456,586	1,311,917	53,183,318

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

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

	2017	2016
Cash flows from operating activities:		
Profit before income tax	9,612,764	8,812,525
Adjustments:		
Impairment losses on assets	7,202,558	6,486,913
Recovery of written-off loans	215,746	157,829
Depreciation and amortization	439,525	372,863
Net gains on disposals of property, plant and equipment	(10,865)	(9,447)
Net losses on de-recognition of investment securities	76,160	67,011
Fair value changes in financial assets at fair value through profit or loss and derivatives	1,040,056	(316,419)
Dividends received	(640)	(2,770)
Share of results of associates	(137,136)	(144,065)
Interest income from investment securities	(21,179,688)	(15,478,039)
Interest expense from debt securities issued	4,702,109	3,298,607
Net changes in operating assets:		
Net increase in balances with the central bank	(1,509,049)	(18,258,447)
Net (increase)/decrease in deposits and placements with banks and other financial institutions	12,743,708	(3,836,835)
Net (increase)/decrease in financial assets at fair value through profit or loss	2,887,376	(3,093,120)
Net decrease in financial assets held under resale agreements	35,511,304	42,403,761
Net increase in loans and advances to customers	(41,796,265)	(36,585,982)
Net (increase)/decrease in finance lease receivables	8,304,913	(6,866,540)
Net (increase)/decrease in other assets	(91,836,837)	9,132,511
Net changes in operating liabilities:		
Net increase in deposits and placements from banks and other financial institutions	10,075,827	1,371,038
Net increase in borrowing from central bank	1,495,000	-
Net increase/(decrease) in financial assets sold under repurchase agreements	42,311,433	(12,812,525)
Net increase in deposits from customers	50,793,773	102,289,854
Net increase/(decrease) in other liabilities	19,986,412	(8,974,013)
Income taxes paid	(3,687,409)	(2,256,968)
Net cash inflow from operating activities	47,240,775	65,757,742

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

	2017	2016
Cash flows from investing activities:		
Dividends received	640	2,770
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	38,654	14,686
Purchase of property, plant and equipment, intangible assets and other long-term assets	(743,747)	(559,504)
Increase in investment in subsidiaries, associates and joint ventures	(304,000)	–
Cash received from investment securities interest income	21,241,156	15,039,595
Cash received from sale and redemption of investment securities	534,619,493	129,190,356
Purchase of investment securities	(621,803,481)	(235,890,313)
Net cash outflow from investing activities	(66,951,285)	(92,202,410)
Cash flows from financing activities:		
Proceeds from issuance of debt securities	253,390,000	59,123,784
Proceeds from issuance of preferred shares	–	5,990,090
Dividends and interest paid on debt issued	(2,515,198)	(4,161,275)
Cash paid relating to debt repayments	(232,952,293)	(48,260,000)
Net cash inflow from financing activities	17,922,509	12,692,599
Impact on cash and cash equivalents resulted from exchange rate changes	293,976	221,985
Net decrease in cash and cash equivalents	(1,494,025)	(13,530,084)
Cash and cash equivalents at beginning of year	28,774,471	42,304,555
Cash and cash equivalents at end of year (Note 45)	27,280,446	28,774,471

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

Notes to the Consolidated Financial Statements

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

1 GENERAL INFORMATION

Huishang Bank Corporation Limited (the “Bank”) is a joint stock commercial bank registered in Anhui Province, the People’s Republic of China (the “PRC”). The Bank was formerly known as Hefei City Cooperatives Bank, which was established on 4 April 1997 with the approval of the People’s Bank of China (“PBOC”), Anhui Branch and Anhui Economic Reform Committee and was renamed as Hefei Commercial Bank Co., Ltd. on 28 July 1998. The Bank was further renamed as Huishang Bank Corporation Limited on 30 November 2005 with the approval of the general office of China Banking Regulatory Commission (“CBRC”) and CBRC Anhui Branch. Approved by CBRC Anhui Branch, the Bank acquired five former city commercial banks in Wuhu, Ma’ anshan, Anqing, Huaibei and Bengbu and seven city credit cooperatives in Lu’an, Huainan, Tongling and Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda on 28 December 2005. The Bank holds the financial institution licence B0162H234010001 from CBRC Anhui Branch and the legal entity business license No. 340000000026144(1-1) from Anhui Provincial Administration of Industry and Commerce. The registered address of the Bank is Block A, Tianhui Building, No. 79, Anqing Road, Hefei, China. In November 2013, the Bank’s H-shares were listed on the Hong Kong Stock Exchange (Stock Code: 3698). As at 30 December 2017, the registered and paid-in capital of the Bank was RMB11 billion.

The principal activities of the Bank and its subsidiaries (collectively, the “Group”) include Renminbi (“RMB”) and foreign currency deposits, loans, clearing and settlement services, assets custody services, finance leasing services, and the provision services as approved by the respective regulators.

These consolidated financial statements were authorised for issue by the Board of Directors on 23 March 2018.

Information of the Bank’s subsidiaries:

Company name	Place of operation	Place of incorporation	Principal activity	Registered capital	Equity held
Jinzhai Huiyin Village and Township Bank Co., Ltd.	Jinzhai	Jinzhai	Financial services	80,000	41%
Wuwei Huiyin Village and Township Bank Co., Ltd.	Wuwei	Wuwei	Financial services	100,000	40%
Huiyin Financial Leasing Co.,Ltd.	Hefei	Hefei	Financial services	2,000,000	51%

- (a) The Bank invested 41% of the total capital contribution to establish Jinzhai Huiyin Village and Township Bank Co., Ltd. (“Jinzhai Huiyin”) on 28 June 2013. The Bank and the other three shareholders who invested a total 30% of the capital contribution signed the Acting in Concert Agreement. These shareholders agreed to act in concert with the Bank when voting for material decisions regarding financial and operation policies. The Bank has control over Jinzhai Huiyin and consolidates it.

In May 2017, one of the three shareholders who signed Acting in Concert Agreement transferred its stake to external shareholders, its Acting in Concert Agreement expired, as at 31 December 2017, the Bank and the rest of two shareholders who signed Acting in Concert Agreements are persons acting in concert, these shareholders agreed to act in concert with the Bank when voting for material decisions regarding financial and operation policies. The Bank has control over Jinzhai Huiyin, so the Bank consolidates Jinzhai Huiyin.

Notes to the Consolidated Financial Statements

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

1 GENERAL INFORMATION (Continued)

- (b) The Bank established Wuwei Huiyin Village and Township Bank Co., Ltd. ("Wuwei Huiyin") in 2010. The registered capital of Wuwei Huiyin is 0.1 billion. The Group invested 40 million, accounted for 40%. Wuwei Huiyin officially commenced its business on 8 August 2010 with the approval of the CBRC. Although the Bank has no absolute controlling interest in Wuwei Huiyin, the company's operating activities in four years after its incorporation indicated that the Bank has a dominant position and control over operating and financing activities of Wuwei Huiyin by taking into full account of various factors. The Bank consolidated Wuwei Huiyin in 31 December 2014.
- (c) The Bank invested 51% to establish Huiyin Financial Leasing Co.,Ltd. on 29 April 2015. The Bank has control over Huiyin Financial Leasing Co.,Ltd. and consolidates it.

2 BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial statement are set out as below. These policies have been consistently applied to the reporting period presented unless otherwise stated.

(1) Basis of preparation and critical accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations promulgated by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by the Group in preparation of the financial statements throughout the reporting period.

These financial statements have been prepared under the historical cost convention, except for financial assets held for trading, available-for-sale financial assets and derivative financial instruments (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. Assets held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Control is achieved when the Bank 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. Specifically, the Bank controls an investee if and only if the Bank has:

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect its returns.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(1) Basis of preparation and critical accounting policies (Continued)

Basis of consolidation (Continued)

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- (a) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) derecognises the cumulative translation differences recorded in equity;
- (d) recognises the fair value of the consideration received;
- (e) recognises the fair value of any investment retained;
- (f) recognises any resulting surplus or deficit in profit or loss; and
- (g) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statement of profit and loss, and within equity in the consolidated statement of financial position separately from the equity attributable to shareholders of the Bank. An acquisition of non-controlling interests is accounted for as an equity transaction.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(2) Revised IFRSs effective by 1 January 2017 applied by the Group (Continued)

On 1 January 2017, the Group adopted the following amendments.

IAS 7 Amendments	Statement of Cash Flows
IAS 12 Amendments	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to IFRSs 2014-2016 Cycle	
IFRS 12	Disclosure of Interests in Other Entities

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 12 Disclosure of Interests in Other Entities

Amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The adoption of the above, amendments does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017

		Effective for annual periods beginning on or after
IFRS 9	<i>Financial Instruments</i>	1 January 2018
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019
IFRS 9 Amendments	<i>Prepayment Features with Negative Compensation</i>	1 January 2019
IAS 19 Amendments	<i>Employee Benefits</i>	1 January 2019
IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
<i>Annual Improvements to IFRSs 2014-2016 Cycle</i>		
IAS 28	<i>Investments in Associates and Joint Ventures</i>	1 January 2018
IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>	1 January 2018
<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>		
1 January 2019		

IFRIC 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

IFRS 16 Leases requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The scope of the new standard includes leases of all assets, with certain exceptions.

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

Amendments to IFRS 9 allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendments clarify that a financial asset passes the “solely payments of principal and interest on the principal amount outstanding” criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination.

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for ‘significant market fluctuations’ in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture.

The Group is in the process of assessing the impact of these new standards, amendments and interpretations on the consolidated and separate financial statements of the Group and the Bank respectively.

Annual Improvements to IFRSs 2014-2016 Cycle was issued in December 2016. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. IAS 28 – *Investments in Associates and Joint Ventures* and IFRS 1 – *First-time Adoption of International Financial Reporting Standards* are effective from annual period beginning on or after 1 January 2018. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2017.

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. The amendments are necessary but not urgent, which are effective from annual period beginning on or after 1 January 2019. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2017.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

(i) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In October 2017, the International Accounting Standards Board issued an amendment to IFRS 9 Financial Instruments. This allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The Group start to adopt IFRS 9 and its amendments from 1 January 2018.

Classification and Measurement

In IFRS 9, investments in debt instruments are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

(i) IFRS 9 – Financial Instruments (Continued)

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from “incurred loss model” to “expected credit loss model” (ECL model) and this way of measurement applies to financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts.

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Bank discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

The Bank shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank conducted an assessment of ECL according to forward-looking information and used complex models and a large number of assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower’s creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Bank adopts judgement, assumption and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk;
- Definition of credit-impaired financial asset;
- Parameters for measuring ECL; and
- Forward-looking information.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

(i) IFRS 9 – Financial Instruments (Continued)

Criteria for judging significant increases in credit risk

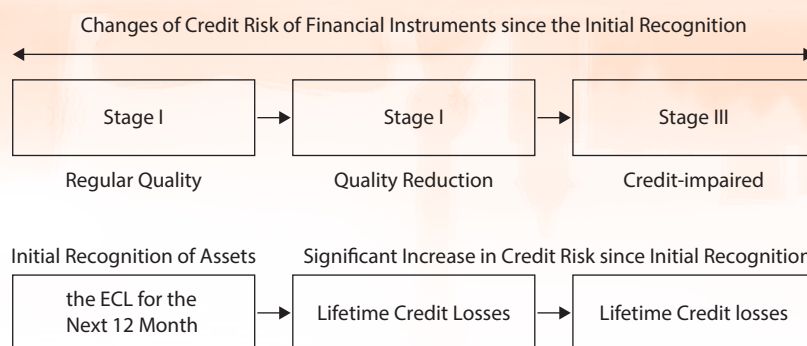
The Bank assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Bank takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Bank, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Bank compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

According to the changes of credit risk of financial instruments since the initial recognition, the Bank calculates the ECL by three stages:

Stage I: The financial instruments without significant increases in credit risk after initial recognition apply the Stage I Model of the ECL to calculate its impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

Stage II: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment apply the Stage II Model of the ECL, with their impairment provision measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

Stage III: Financial assets with objective evidence of impairment at the balance sheet date apply the Stage III Model of ECL, with their impairment provisions measured at the amount equivalent to the ECL for the lifetime of the financial instruments.



Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

(i) IFRS 9 – Financial Instruments (Continued)

Criteria for judging significant increases in credit risk (Continued)

For the previous accounting period, the impairment provision has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Bank will measure the impairment provision of the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default (PD) is considered significant, comparing with the one at initial recognition.

Qualitative criteria

- Significant adverse change in debtor's operation or financial status;
- Be classified into Special Mention category within five-tier loan classification; and
- Be listed on the watch-list.

Backstop criteria

- The contractual payments of the debtor's any principal, advances, interest or corporate bond are more than 30 days past due.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

(i) IFRS 9 – Financial Instruments (Continued)

Criteria for judging significant increases in credit risk (Continued)

Definition of credit-impaired financial asset

The standard adopted by the Bank to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Bank assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Bank overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

(i) IFRS 9 – Financial Instruments (Continued)

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Bank measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. Under the requirement of IFRS 9, there is an adjustment from the debtor's PD under New Basel Capital Accord to the point-in-time (PIT) PD.
- LGD refers to the Bank's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime.
- EAD is the amount that the Bank should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Bank takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Bank identifies the key economic indicators that affect the credit risk and ECL of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Bank applied experts' judgement in this process, according to the result of experts' judgement, the Bank predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Bank combines statistical analysis with experts' judgement to determine the weight of other possible scenarios. The Bank measures the related impairment for the ECL of the 12-month ECL (stage I) or the weighted average lifetime credit losses (stage II and stage III). The weighted credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

(3) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

(i) IFRS 9 – Financial Instruments (Continued)

Impacts

Considering the impact of these standards, and interpretations on the consolidated financial statements, the Group will record an adjustment to 1 January 2018 retained earnings and other comprehensive income at the adoption date, but will not restate comparative periods. The adoption of IFRS 9 is expected to reduce shareholders' equity by less than 2% as at 1 January 2018, which mainly results from the application of ECL model and part of the Group's assets are measured at fair value.

(ii) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRSs.

IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains on financial investments which are covered under IFRS 9. According to the current assessment, IFRS 15 has no significant impact on the overall financial statements of the Group.

IFRS 16 Leases requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The scope of the new standard includes leases of all assets, with certain exceptions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in an associate are accounted for under the equity method of accounting. Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After the application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of profit and loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interests in the associate.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(1) Associate (Continued)

The results of the associate are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in an associate are stated at cost less any impairment losses.

The reporting periods of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(2) Foreign currency translations

The consolidated financial statements of the Group are presented in RMB, being the functional and presentation currency of the Bank and its subsidiaries.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined.

(3) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition of financial instruments

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables and available-for-sale financial assets.

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial asset or financial liability is measured initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Measurement of fair value

The fair value of a financial asset or financial liability traded in active markets is based on its quoted market price.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include making reference to the prices from recent arm's length market transactions between knowledgeable and willing parties, if available, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Financial assets or financial liabilities at fair value through profit or loss

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

Financial assets or financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if:

- (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or
- (iii) it is a derivative.

Financial assets held for trading mainly include bond investments.

Financial assets or financial liabilities held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the income statement.

Financial assets or financial liabilities designated at fair value through profit or loss

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below:

- (i) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;
- (ii) It applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- (iii) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the income statement when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments.

The Group shall reclassify any remaining held-to-maturity investments as available-for-sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

- (i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- (ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- (iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the income statement when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the income statement as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the income statement. Dividend and interest income on available-for-sale financial assets are recorded in the income statement.

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest rate method.

(4) Impairment of financial assets

An assessment on a carrying amount of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and shall include the value of any relevant collateral. The original effective interest rate is the rate used to determine the values of financial assets at initial recognition. With respect to floating-rate loans, receivables and held-to-maturity investments, the discount rate could be the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

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

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

When an item of loans and receivables is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the income statement. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the income statement. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If there is objective evidence that the financial asset is impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Group considers the time period and continuity of the magnitude of the decline to evaluate whether the decline in fair value is prolonged. More significantly the fair value declines relative to the cost, the less the volatility moves, and the longer the decline lasts or the more obvious the continuity of the magnitude of the decline is, the more likely the equity investment impairs. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised as other comprehensive income.

In the case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impaired loss is reversed through the income statement.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(6) Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(8) Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a “repurchase agreement”, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date (“reverse repos”) are not recognised on the consolidated statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the consolidated statement of financial position as a “reverse repurchase agreement”. The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

(9) Property and equipment

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Property and equipment (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and annual depreciation rate of each item of property and equipment are as follows:

	Estimated useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	20 years	3%	4.85%
Motor vehicles	5 years	3%	19.40%
Electronic and other equipment	5-10 years	3%	9.70%~19.40%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(10) Land use rights

Land use rights are recognised at cost, which is the consideration paid. The rights are amortised using the straight-line basis over the period of the leases.

(11) Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(12) Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the assets or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. Such non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(13) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as gain on bargain purchase.

(14) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Asset impairment

Impairment losses on assets except for deferred tax assets, financial assets and goodwill are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(16) Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with the central bank, amounts due from banks and other financial institutions and reverse repurchase agreements with original maturity of less than three months.

(17) Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(17) Employee benefits (Continued)

Statutory defined contribution plans

In accordance with the relevant laws and regulations, employees of the Group participate in various social insurance schemes like basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies the above pension and insurance schemes using applicable contribution basis and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the income statement as incurred.

Early retirement benefits

According to the Bank's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Bank. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the income statement as incurred.

(18) Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreement with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

The Group grants entrusted loans on behalf of trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which are recognised rateably over the period in which the service is provided. The risk of loss is borne by those trustors.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fee and commission income is recognised after services have been rendered, and the chargeable amount is reasonably estimated.

The fair value of the award credits granted to the bank card holders is deferred and recognised as fee and commission income when the award credits are redeemed or expire.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Net trading income

Net trading income arising from trading activities include the gains and losses from changes in fair value for financial assets held for trading.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the income statement except that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- (i) When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (i) When the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Income tax (Continued)

Deferred income tax (Continued)

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(21) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

Operating leases

Rental payments applicable to operating leases are charged to the income statement on the straight-line basis over the lease terms.

When the Group is the lessor under operating leases, the assets subject to operating leases are accounted for as the Group's assets. Rental income is recognised as "other operating income, net" in the income statement on the straight-line basis over the lease term.

Finance Leases

When the Group is a lessor under a financial lease, at the leasing commencement date, the minimum lease payments receivables and initial direct costs are recognised as finance lease receivables and any unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease payments receivables, initial direct costs, the unguaranteed residual value and their present value is accounted for as unearned finance income.

The unearned finance income is amortised using the effective interest method over the lease period.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies set out in Note 3(4).

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(22) Related Parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person,
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
 - (viii) the entity, or any member of a group of which it is a party, provides key management personnel services to the Group or the parent of the Group.

Notes to the Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(23) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the income statement.

(24) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(25) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

(26) Structured entities

A structured entity is an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity. Unconsolidated structured entities refer to equity in other entities which have no significant impact to the Group, including but not limited to equity instruments or debt instruments or any other involvements. The Group's unconsolidated structured entities mainly include off-balance sheet non-guaranteed WMPs sponsored by the Group (Note 44).

Notes to the Consolidated Financial Statements

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available for sale.

Impairment losses of loans and advances, financial lease receivables, amounts due from banks and other financial institutions, and receivables

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances, financial lease receivables, amounts due from banks and other financial institutions, and receivables. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using valuation techniques. These valuation techniques include using recent arm's length market transactions between knowledgeable and 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. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

Notes to the Consolidated Financial Statements

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Early retirement benefit obligations

The Bank has established liabilities in connection with benefits payable to early retired employees. These amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which the differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee early retirement benefit obligations.

Judgement of the control level to investee

Management determines whether the Bank controls related investment funds, non-guaranteed WMPs, asset-backed securities, specific asset management plan and investment trust plan according to Note 2(1).

The Bank manages or invests several investment funds, non-guaranteed WMPs, asset-backed securities, specific asset management plans and trust fund plans. When determining whether to control structural entities of these types, the Bank mainly estimates the whole economy benefit it has in these structural entities (including revenues by holding directly and expected fees) or the range of power of decision-making in the entities. The Bank determines whether to consolidate the structural entities into the financial statements according to whether the Bank is an agent or a main responsibility party and whether the economy interest of the Bank in the entities is significant.

Classification between finance leases and operating leases

Leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee and a receivable by the lessor) or operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor).

The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgements by management.

Notes to the Consolidated Financial Statements

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

5 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY

	As at 31 December 2017	As at 31 December 2016
Assets		
Cash and balances with the central bank	91,946,124	87,647,789
Deposits with banks and other financial institutions	8,246,628	9,169,601
Placements with banks and other financial institutions	3,553,288	19,319,720
Financial assets at fair value through profit or loss	2,695,099	5,742,117
Derivative financial assets	67,479	385,977
Financial assets held under resale agreements	36,027,487	516,183
Loans and advances to customers	302,624,283	265,341,594
Investment securities		
– available-for-sale	143,305,890	122,077,403
– held-to-maturity	61,128,401	52,351,451
– debt instruments classified as receivables	212,647,260	159,671,108
Investments in subsidiaries	1,122,313	1,122,313
Investments in associates	971,050	538,646
Property, plant and equipment	1,905,682	1,706,057
Deferred tax assets	4,665,991	2,274,500
Other assets	8,252,612	5,101,649
Total assets	879,159,587	732,966,108
Liabilities		
Due to the central bank	1,500,000	–
Deposits from banks and other financial institutions	95,956,890	83,386,949
Placements from banks and other financial institutions	5,042,912	1,422,085
Derivative financial liabilities	747,449	4,643
Financial assets sold under repurchase agreements	74,930,675	32,619,242
Deposits from customers	508,780,021	457,642,058
Taxes payable	2,736,093	1,494,750
Debt securities issued	115,180,357	91,505,250
Other liabilities	16,943,206	13,189,789
Total liabilities	821,817,603	681,264,766
Equity		
Share capital	11,049,819	11,049,819
Other equity instruments	5,990,090	5,990,090
Capital reserve	6,751,041	6,751,041
Surplus reserve	7,953,301	6,536,297
General reserve	7,637,817	6,208,315
Investment revaluation reserve	(869,997)	(120,747)
Retained earnings	18,829,913	15,286,527
Total equity	57,341,984	51,701,342
Total equity and liabilities	879,159,587	732,966,108

Wu Xuemin
Chairman

Sheng Hongqing
Assistant President

Li Dawei
Head of Finance Department

Notes to the Consolidated Financial Statements

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

5 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Retained earnings	Total equity
As at 1 January 2017	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,286,527	51,701,342
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	7,423,622	7,423,622
Other comprehensive income, net of tax	-	-	-	-	-	(749,250)	-	(749,250)
Total comprehensive income for the year	-	-	-	-	-	(749,250)	7,423,622	6,674,372
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(1,033,730)	(1,033,730)
Appropriation to surplus reserve	-	-	-	1,417,004	-	-	(1,417,004)	-
Appropriation to general reserve	-	-	-	-	1,429,502	-	(1,429,502)	-
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(869,997)	18,829,913	57,341,984
As at 1 January 2016	11,049,819	-	6,751,041	5,249,966	4,716,293	270,636	13,075,381	41,113,136
Issuance of preference shares	-	5,990,090	-	-	-	-	-	5,990,090
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	6,746,421	6,746,421
Other comprehensive income, net of tax	-	-	-	-	-	(391,383)	-	(391,383)
Total comprehensive income for the year	-	-	-	-	-	(391,383)	6,746,421	6,355,038
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(1,756,922)	(1,756,922)
Appropriation to surplus reserve	-	-	-	1,286,331	-	-	(1,286,331)	-
Appropriation to general reserve	-	-	-	-	1,492,022	-	(1,492,022)	-
As at 31 December 2016	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,286,527	51,701,342

Notes to the Consolidated Financial Statements

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

6 NET INTEREST INCOME

	2017	2016
Interest income		
Balances with the central bank	1,232,422	1,078,255
Deposits and placements with banks and other financial institutions	1,012,293	1,670,057
Loans and advances to customers	14,672,276	13,704,237
Investment securities	21,179,688	15,478,039
Finance lease	1,319,576	771,354
	39,416,255	32,701,942
Including: Interest income accrued on impaired loans to customers	57,259	89,404
Interest expense		
Borrowing from the central bank	(4,803)	(60)
Deposits and placements from banks and other financial institutions	(6,710,544)	(4,375,190)
Deposits from customers	(7,802,262)	(6,688,464)
Debt securities issued	(4,702,109)	(3,298,607)
	(19,219,718)	(14,362,321)
Net interest income	20,196,537	18,339,621

7 NET FEE AND COMMISSION INCOME

	2017	2016
Fee and commission income		
Custodian and other fiduciary service commissions	1,656,104	1,409,985
Bank card fees	517,755	513,960
Consultancy and advisory fees	150,966	178,670
Settlement and clearing fees	130,394	109,206
Agency commissions	337,199	173,599
Guarantee and commitment fees	35,079	18,867
Syndicated loan fees	2,698	10,583
Domestic factoring fees	6,424	9,439
Arrangement fees for international trade financing	1,029	7,136
Bond selling fees	1,543	–
Others	204,398	199,743
	3,043,589	2,631,188
Fee and commission expense	(199,918)	(140,052)
Net fee and commission income	2,843,671	2,491,136

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

8 NET TRADING (LOSSES)/GAINS

	2017	2016
Net (losses)/gains from foreign exchange	(460,986)	157,099
Net gains/(losses) from interest rate instruments	21,248	(81,123)
	(439,738)	75,976

Net gains/(losses) from financial investments mainly include gains arising from fair value changes of financial assets at fair value through profit or loss.

9 OTHER OPERATING INCOME, NET

	2017	2016
Net (losses)/gains on bills	(122,245)	1,797
Others	105,620	74,120
	(16,625)	75,917

10 OPERATING EXPENSES

	2017	2016
Staff cost (Note 11)	(3,233,368)	(2,804,179)
Business tax and surcharges	(156,473)	(649,746)
General operating and administrative expenses	(1,526,721)	(1,454,222)
Operating lease rental expenses	(351,448)	(281,520)
Depreciation (Note 25)	(300,333)	(252,830)
Amortisation expenses for long-term prepaid expenses	(93,155)	(84,787)
Amortisation expenses for intangible assets (Note 27(d))	(41,467)	(23,746)
Amortisation expenses for land use rights (Note 27(c))	(4,570)	(11,500)
Auditors' remuneration	(7,130)	(8,245)
– Audit services	(6,830)	(7,550)
– Non-audit services	(300)	(695)
Others	(115,474)	(192,261)
	(5,830,139)	(5,763,036)

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

11 STAFF COST

	2017	2016
Salaries, bonuses, allowances and subsidies	(2,407,962)	(2,072,651)
Pension costs	(347,663)	(276,866)
Labor union fee and staff education fee	(88,329)	(75,525)
Other social insurance and welfare costs	(389,414)	(379,137)
	(3,233,368)	(2,804,179)

(a) Five highest paid individuals

For the year ended 31 December 2017, the five highest paid individuals include one supervisor (2016: one director). Details are listed in Note (12(a)). The emoluments for the rest of the four (2016: 4) highest paid individuals are as follows:

	2017	2016
Salaries, allowances and benefits	4,134	4,113
Contribution to pension schemes	234	226
Discretionary bonuses	3,128	2,742
	7,496	7,081

The number of these individuals, other than supervisors and directors, whose emoluments fell within the following bands.

	2017	2016
RMB1,000,001-RMB1,500,000	–	1
RMB1,500,001-RMB2,000,000	2	1
RMB2,000,001-RMB2,500,000	2	2
	4	4

No emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

(a) Details of the Directors' and Supervisors' emoluments are as follows:

Name	2017				Total
	Fees	Salaries, allowance and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Executive Directors					
Li Hongming ^{(1) (a)}	–	459	70	63	592
Wu Xuemin ^(a)	–	444	66	76	586
Xu Demei ^{(2) (a)}	–	74	188	–	262
Ci Yaping ^(a)	–	370	63	57	490
Non-executive Directors					
Zhang Feifei	–	–	–	–	–
Gao Yang	–	–	–	–	–
Zhu Jiusheng ⁽³⁾	–	–	–	–	–
Zhao Zongren ⁽⁴⁾	–	–	–	–	–
Qian Li ⁽⁵⁾	–	–	–	–	–
Lu Hui ⁽⁶⁾	–	–	–	–	–
Qiao Chuanfu ⁽⁷⁾	–	–	–	–	–
Au Ngai, Daniel	63	–	–	–	63
Dai Genyou	90	–	–	–	90
Wang Shihao ⁽⁸⁾	75	–	–	–	75
Zhang Shenghuai	87	–	–	–	87
Fung Weiquan ⁽⁹⁾	15	–	–	–	15
Zhu Hongjun ⁽¹⁰⁾	87	–	–	–	87
Supervisors					
Zhang Renfu ^{(11) (a)}	–	423	63	95	581
Xu Chongding ^(a)	–	758	59	751	1,568
Zhou Tong ^{(13) (a)}	–	819	49	644	1,512
Cheng Rulin	–	–	–	–	–
Qian Xiaojun ⁽¹⁵⁾	–	–	–	–	–
Li Ruifeng	–	–	–	–	–
Cheng Junpei	79	–	–	–	79
Pan ShuJuan	88	–	–	–	88
Yang Mianzhi	43	–	–	–	43
Total	627	3,347	558	1,686	6,218

(a) The total compensation packages for executive directors and supervisors for the year ended 31 December 2017 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2017 financial statements. The compensation amounts have been fully disclosed for these directors and supervisors as at 31 December 2016.

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (Continued)

Name	Fees	2016			Total
		Salaries, allowance and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Executive Directors					
Li Hongming ^{(1) (a)}	–	618	67	–	685
Wu Xuemin ^(a)	–	561	64	–	625
Xu Demei ^{(2) (a)}	–	478	60	–	538
Ci Yaping ^(a)	–	477	61	–	538
Non-executive Directors					
Zhang Feifei	–	–	–	–	–
Gao Yang	–	–	–	–	–
Zhu Jiusheng ⁽³⁾	–	–	–	–	–
Zhao Zongren ⁽⁴⁾	–	–	–	–	–
Qian Li ⁽⁵⁾	–	–	–	–	–
Lu Hui ⁽⁶⁾	–	–	–	–	–
Qiao Chuanfu ⁽⁷⁾	–	–	–	–	–
Au Ngai, Daniel	76	–	–	–	76
Dai Genyou	101	–	–	–	101
Wang Shihao ⁽⁸⁾	103	–	–	–	103
Zhang Shenghuai	76	–	–	–	76
Fung Weiquan ⁽⁹⁾	63	–	–	–	63
Zhu Hongjun ⁽¹⁰⁾	103	–	–	–	103
Supervisors					
Zhang Renfu ^{(11) (a)}	–	477	61	–	538
Zhang Zhen ^{(12) (a)}	–	71	216	–	287
Xu Chongding ^(a)	–	730	57	426	1,213
Zhou Tong ^{(13) (a)}	–	783	47	255	1,085
Cheng Rulin	–	–	–	–	–
Cheng Hong ⁽¹⁴⁾	–	–	–	–	–
Qian Xiaojun ⁽¹⁵⁾	–	–	–	–	–
Cheng Junpei	90	–	–	–	90
Fan Libo ⁽¹⁶⁾	–	–	–	–	–
Pan ShuJuan	90	–	–	–	90
Total	702	4,195	633	681	6,211

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (Continued)

- (1) Li Hongming ceased to be chairman, executive director, chairman of the Development Strategy and Consumer Protection Committee and member of Personnel Nomination and Remuneration Committee from December 2017.
- (2) Xu Demei ceased to be vice chairman, executive director and member of the Related Transactions Control and Risk Management Committee from March 2017.
- (3) Zhu Jiusheng was elected to be non-executive director effective from October 2014.
- (4) Zhao Zongren was elected to be non-executive director effective from October 2014.
- (5) Qian Li was elected to be non-executive director effective from July 2015.
- (6) Lu Hui was elected to be non-executive director effective from July 2015.
- (7) Qiao Chuanfu was elected to be non-executive director effective from July 2015.
- (8) Wang Shihao resigned as independent non-executive director from December 2015. The resignation will go into effect immediately when the Group appoint the new independent non-executive director.
- (9) Fung Weiquan ceased to be independent non-executive director, member of the Development Strategy and Consumer Protection Committee and member of Personnel Nomination and Remuneration Committee from May 2017.
- (10) Zhu Hongjun resigned as independent non-executive director from April 2016. The resignation will go into effect immediately when the Group appoint the new independent non-executive director.
- (11) Zhang Renfu ceased to be executive director from January 2016 and was elected to be the chairman of the Board of Supervisors and employee representative supervisor effective from January 2016.
- (12) Zhang Zhen ceased to be the chairman of the Board of Supervisors and employee supervisor from January 2016.
- (13) Zhou Tong was elected to be supervisor effective from August 2014.
- (14) Cheng Hong ceased to be shareholder supervisor from November 2016.
- (15) Qian Xiaojun ceased to be shareholder supervisor and member of Supervision Committee in Board of Supervisors from December 2017.
- (16) Fan Libo ceased to be external supervisor and chairman of Supervision Committee in Board of Supervisors from June 2017.

Notes to the Consolidated Financial Statements

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (Continued)

(b) Retirement benefits of directors and supervisors

For the years ended 31 December 2017 and 2016, no retirement benefits were paid to the directors or supervisors by a defined benefit pension plan operated by the Group.

(c) Termination benefits of directors and supervisors

For the years ended 31 December 2017 and 2016, no termination benefits were paid to the directors or supervisors by the Group.

(d) Consideration provided to third parties for making available services of directors and supervisors.

For the years ended 31 December 2017 and 2016, no consideration were provided to third parties for making available services of directors and supervisors by the Group.

(e) Material interests in the transaction, arrangement or contract of directors and supervisors.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director or a supervisor of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years of 2017 and 2016.

13 IMPAIRMENT LOSSES ON ASSETS

	2017	2016
Loans and advances to customers		
– Collectively assessed	(2,163,542)	(2,611,211)
– Individually assessed	(2,099,569)	(2,156,293)
Debt instruments classified as receivables	(2,669,643)	(979,845)
Available-for-sale financial assets	159,257	(430,252)
Finance lease receivables	(234,447)	(221,376)
Repossessed assets	(150,200)	–
Other receivables	(15,465)	(87,936)
	(28,949)	–
	(7,202,558)	(6,486,913)

14 INCOME TAX EXPENSE

	2017	2016
Current income tax		
– Mainland China income tax	(3,966,647)	(2,720,835)
Deferred tax (Note 35)	2,165,631	904,582
	(1,801,016)	(1,816,253)

The provision for Mainland China income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

Notes to the Consolidated Financial Statements

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

14 INCOME TAX EXPENSE (Continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	2017	2016
Profit before tax	9,612,764	8,812,525
Tax calculated at applicable statutory tax rate of 25%	(2,403,191)	(2,203,131)
Tax effect arising from income not subject to tax ^(a)	657,983	462,583
Tax effect of items such as expenses not deductible for tax purposes ^(b)	(47,182)	(63,605)
Tax filing differences from previous year	(8,626)	(12,100)
Income tax expense	(1,801,016)	(1,816,253)

(a) Non-taxable income mainly represents interest income arising from PRC treasury bonds which are tax free according to PRC tax regulations.

(b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

15 EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the Bank by the weighted average ordinary shares in issue during the period.

	2017	2016
Net profit attributable to ordinary equity holders of the Bank (in RMB thousand)	7,614,884	6,870,472
Dividends on preference shares declared (in RMB thousand)	359,690	–
Weighted average number of ordinary shares in issue (in thousand)	11,049,819	11,049,819
Basic earnings per share (in RMB Yuan)	0.66	0.62

(b) Diluted earnings per share

For the years ended 31 December 2017 and 31 December 2016, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued non-cumulative preference shares in 2016 under the terms and conditions stated in Note 37(b) other equity instruments.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank. The Bank has declared \$54.27 million of dividends (RMB359.69 million) on preference shares for the year ended 31 December 2017.

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2017 and the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

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16 CASH AND BALANCES WITH THE CENTRAL BANK

	As at 31 December 2017	As at 31 December 2016
Cash	1,292,408	1,352,992
Statutory reserves ^(a)	73,508,127	71,999,077
Surplus reserves ^(b)	17,557,338	14,707,291
	92,357,873	88,059,360

- (a) The Group places statutory deposit reserves with the People's Bank of China ("PBOC"). The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates of the bank were as follows:

	As at 31 December 2017	As at 31 December 2016
Statutory reserve rate for RMB deposits	13.5%	14.5%
Statutory reserve rate for foreign currency deposits	5.0%	5.0%

- (b) Surplus deposit reserves maintained with the PBOC are mainly for clearing purpose.

17 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2017	As at 31 December 2016
Banks in Mainland China	6,697,192	4,483,089
Banks in Mainland China non-bank financial institutions	47,136	–
Banks in other countries and regions	2,955,508	6,477,512
	9,699,836	10,960,601
Less: allowances for impairment losses		
– Individually assessed	(3)	(3)
	9,699,833	10,960,598

Notes to the Consolidated Financial Statements

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

18 PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2017	As at 31 December 2016
Banks in Mainland China	1,502,866	16,829,261
Other financial institutions in Mainland China	2,050,422	2,490,459
	3,553,288	19,319,720

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2017	As at 31 December 2016
Government bonds		
– Listed outside Hong Kong	174,431	150,736
Other debt securities		
– Listed outside Hong Kong	1,587,454	3,098,940
Interbank certificates of deposit		
– Listed outside Hong Kong	933,214	2,492,441
	2,695,099	5,742,117

As at 31 December 2017 and 31 December 2016, there was no significant limitation on the ability of the Group and the Bank to dispose financial assets at fair value through profit or loss. Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Financial assets at fair value through profit or loss analysed by category of issuer are as follows:

	As at 31 December 2017	As at 31 December 2016
Debt securities Issuers in Mainland China		
– Government	174,431	150,736
– Banks and other financial institutions	1,061,721	1,185,578
– Legal entities	525,733	1,913,362
Interbank certificates of deposit Issuers in Mainland China		
– Financial institutions	933,214	2,492,441
	2,695,099	5,742,117

Notes to the Consolidated Financial Statements

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

20 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2017		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	54,596	60	–
– Currency swaps	15,595,701	46,563	(745,165)
– Interest rate swaps	1,950,000	20,856	(2,284)
	17,600,297	67,479	(747,449)

	As at 31 December 2016		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	180,328	1,583	(1,061)
– Currency swaps	7,887,477	352,891	–
– Interest rate swaps	3,550,000	31,503	(3,582)
	11,617,805	385,977	(4,643)

21 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December 2017	As at 31 December 2016
Securities held under resale	35,927,634	–
Bills held under resale	–	516,183
Precious metals products	99,853	–
	36,027,487	516,183

Notes to the Consolidated Financial Statements

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

22 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 31 December 2017	As at 31 December 2016
Corporate loans and advances		
– Corporate loans	187,110,793	179,201,470
– Discounted bills	15,209,815	16,761,362
Subtotal	202,320,608	195,962,832
Personal loans and advances		
– Mortgage loans	84,738,585	60,672,004
– Revolving loans for individual business	6,483,121	8,689,625
– Others	21,151,835	12,046,187
Subtotal	112,373,541	81,407,816
Total	314,694,149	277,370,648
Less: allowance for impairment losses		
– Collectively assessed	(8,074,345)	(6,930,897)
– Individually assessed	(1,411,259)	(1,103,610)
Total allowance for impairment losses	(9,485,604)	(8,034,507)
Loans and advances to customers, net	305,208,545	269,336,141

(b) Movement of allowance for impairment losses on loans and advances to customers by collective and individual assessment:

	As at 31 December 2017		As at 31 December 2016	
	Collectively assessed allowance	Individually assessed allowance	Collectively assessed allowance	Individually assessed allowance
Balance at beginning of the year	6,930,897	1,103,610	5,314,731	691,358
Impairment allowance charged	2,163,542	2,099,569	2,611,211	2,156,293
Unwinding of discount on allowance	(36,615)	(20,644)	(60,505)	(28,899)
Recovery	90,079	125,667	26,230	131,599
Write-offs	(1,073,558)	(1,896,943)	(960,770)	(1,846,741)
Balance at end of the year	8,074,345	1,411,259	6,930,897	1,103,610

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

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Movement of allowance for impairment losses on loans and advances to customers by customer type:

	As at 31 December 2017		As at 31 December 2016	
	Corporate loans	Individual loans	Corporate loans	Individual loans
Balance at beginning of the year	6,013,332	2,021,175	4,658,802	1,347,287
Impairment allowance charged	3,425,022	838,089	3,705,487	1,062,015
Unwinding of discount on allowance	(50,770)	(6,489)	(68,539)	(20,865)
Recovery	140,263	75,483	131,599	26,230
Write-offs	(2,436,779)	(533,722)	(2,414,017)	(393,492)
Balance at end of the year	7,091,068	2,394,536	6,013,332	2,021,175

(d) Analysis of loans and advances to customers by collective and individual allowance assessments:

As at 31 December 2017	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances		Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed		
Total loans and advances					
– Corporate loans	198,534,339	1,864,988	1,921,281	3,786,269	202,320,608
– Personal loans and advances	111,754,924	618,617	–	618,617	112,373,541
Allowance for impairment losses	(5,784,178)	(2,290,167)	(1,411,259)	(3,701,426)	(9,485,604)
Loans and advances to customers, net	304,505,085	193,438	510,022	703,460	305,208,545

As at 31 December 2016	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances		Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed		
Total loans and advances					
– Corporate loans	193,692,542	918,744	1,351,546	2,270,290	195,962,832
– Personal loans and advances	80,710,800	697,016	–	697,016	81,407,816
Allowance for impairment losses	(5,930,044)	(1,000,853)	(1,103,610)	(2,104,463)	(8,034,507)
Loans and advances to customers, net	268,473,298	614,907	247,936	862,843	269,336,141

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23 INVESTMENT SECURITIES

	As at 31 December 2017	As at 31 December 2016
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	57,067,186	32,548,360
– Interbank certificates of deposit	14,117,912	14,605,375
Unlisted		
– Beneficial rights in trust and asset management plans ⁽¹⁾	62,415,359	60,613,663
– Non-guaranteed WMPs managed by other banks	10,000,000	13,500,000
– Equity securities	9,500	9,500
Subtotal	143,609,957	121,276,898
Allowance for impairment losses	(304,067)	(892,508)
Available-for-sale financial assets, net	143,305,890	120,384,390
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	61,128,401	52,351,451
Subtotal	61,128,401	52,351,451
Debt instruments classified as receivables		
Unlisted		
– Beneficial rights in trust and asset management plans ⁽¹⁾	207,944,902	155,177,254
– Guaranteed WMPs managed by other banks	7,850,000	6,000,000
– Debt securities	133,772	105,625
Subtotal	215,928,674	161,282,879
Total allowance for impairment losses	(4,281,414)	(1,611,771)
Debt instruments classified as receivables, net	211,647,260	159,671,108

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

- (1) Beneficial rights in trust and asset management plans invested by the Group are the usufruct in trusts or asset management plans organised by security companies. The investment decisions of these products are made by the third-party asset managers or custodians. They mainly invest in collective investment products including: (a) Liquid assets: deposits, repurchase agreements, money market funds and other cash management products, bond funds; bonds traded in exchange and inter-bank market, convertible bonds, ABS and ABN, or other qualified highly-liquid assets. (b) Financing assets: the financing forms including entrusted loans, loan assets bought from other financial institutions, specific asset usufruct and etc. (c) Products issued by other financial institutions mainly including non-cash management fixed return products issued by investment funds, trusts, insurance companies, securities companies, commercial banks and etc. The detail of unconsolidated structured entities invested by the Group is in Note 44.

Notes to the Consolidated Financial Statements

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

23 INVESTMENT SECURITIES (Continued)

Beneficial rights in trust and asset management plans are analysed by category of underlying asset as follows:

	As at 31 December 2017	As at 31 December 2016
Available-for-sale financial assets		
Unsecured products issued by financial institutions	55,293,769	53,580,713
Guaranteed by third-party companies	3,764,497	2,457,230
Collateralised by properties	1,350,673	2,675,920
Senior tranches of ABS	653,420	1,899,800
Bank guarantees	1,353,000	–
Total	62,415,359	60,613,663
Debt instrument classified as receivables		
Guaranteed by repurchase agreements within joint venture	96,378,711	86,912,872
Pledged by certificates of deposits and bank acceptances	20,353,371	27,939,455
Unsecured products issued by financial institutions	30,782,750	16,657,281
Senior tranches of ABS	28,920,180	13,565,332
Guaranteed by third-party companies	21,138,339	6,531,230
Collateralised by properties	10,371,551	3,571,084
Total	207,944,902	155,177,254

Notes to the Consolidated Financial Statements

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

23 INVESTMENT SECURITIES (Continued)

	As at 31 December 2017	As at 31 December 2016
Available-for-sale financial assets		
Issuers in Mainland China		
– Government	29,322,883	16,895,906
– Banks and other financial institutions	102,453,916	100,020,942
– Legal entities	11,823,658	4,350,550
Subtotal	143,600,457	121,267,398
Equity securities	9,500	9,500
Total	143,609,957	121,276,898
Allowance for impairment losses	(304,067)	(892,508)
Available-for-sale financial assets, net	143,305,890	120,384,390
Held-to-maturity investments		
Issuers in Mainland China		
– Government	48,782,096	39,198,585
– Banks and other financial institutions	6,579,001	9,043,709
– Legal entities	5,767,304	4,109,157
Held-to-maturity investments, net	61,128,401	52,351,451
Debt instrument classified as receivables		
Issuers in Mainland China		
– Government	133,772	105,625
– Banks and other financial institutions	215,794,902	161,177,254
Total	215,928,674	161,282,879
Allowance for impairment losses	(4,281,414)	(1,611,771)
Debt instrument classified as receivables, net	211,647,260	159,671,108

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

24 INVESTMENTS IN ASSOCIATES

Investments in associates of the Group comprise of ordinary shares of unlisted companies are as follows:

As at 31 December 2017

Associate	Place of registration	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	32,708,000	27,852,751	1,564,938	684,910	20%

As at 31 December 2016

Associate	Place of registration	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	22,857,442	20,164,214	1,569,597	670,754	20%

	Year ended 31 December 2017	Year ended 31 December 2016
Balance at beginning of the year	538,646	413,581
Increase in the current year	304,000	–
Cash dividends received	(8,732)	(19,000)
Share of results, net of tax	137,136	144,065
Balance at end of the year	971,050	538,646

Chery Huiyin Motor Finance Service Co., Ltd. was established in 2009, with a registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20%. With the approval of CBRC Anhui Branch on 24 December 2012, the authorised registered capital of Chery Huiyin Motor Finance Service Co., Ltd. was increased to RMB1 billion. As at 31 December 2013, the Group's share in this associate was RMB200 million or 20%. On 30 September 2014, this company has completed its shareholding reform, and renamed as Chery Huiyin Motor Finance Service Corporation Limited. In December 2017, the three shareholders of the Company subscribed to 500 million shares in the company with capital injection of RMB1.52 billion, in proportion to their respective shareholding ratio. After the capital increase, the registered capital of the Company increased from RMB1 billion to RMB1.5 billion. After the capital increase, the Group's share in this associate was RMB300 million or 20%.

Notes to the Consolidated Financial Statements

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

25 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2017	1,506,184	66,915	1,321,197	280,629	3,174,925
Additions	9,124	2,876	182,028	360,553	554,581
Transfers in/(out)	–	–	3,938	(30,124)	(26,186)
Disposals	–	(2,497)	(25,123)	–	(27,620)
Other transfers out	–	–	–	(106)	(106)
As at 31 December 2017	1,515,308	67,294	1,482,040	610,952	3,675,594
Accumulated depreciation					
As at 1 January 2017	(616,499)	(52,135)	(787,049)	–	(1,455,683)
Depreciation charge	(172,227)	(5,626)	(122,480)	–	(300,333)
Disposals	–	1,754	21,998	–	23,752
As at 31 December 2017	(788,726)	(56,007)	(887,531)	–	(1,732,264)
Net book value					
As at 31 December 2017	726,582	11,287	594,509	610,952	1,943,330

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2016	1,506,184	67,590	1,126,262	162,697	2,862,733
Additions	–	661	229,263	200,478	430,402
Transfers in/(out)	–	–	9,766	(9,766)	–
Disposals	–	(1,336)	(44,094)	–	(45,430)
Other transfers out	–	–	–	(72,780)	(72,780)
As at 31 December 2016	1,506,184	66,915	1,321,197	280,629	3,174,925
Accumulated depreciation					
As at 1 January 2016	(548,762)	(45,389)	(651,200)	–	(1,245,351)
Depreciation charge	(67,737)	(8,038)	(177,055)	–	(252,830)
Disposals	–	1,292	41,206	–	42,498
As at 31 December 2016	(616,499)	(52,135)	(787,049)	–	(1,455,683)
Net book value					
As at 31 December 2016	889,685	14,780	534,148	280,629	1,719,242

All lands and buildings of the Group are located outside Hong Kong.

Notes to the Consolidated Financial Statements

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

26 FINANCE LEASE RECEIVABLES

As at 31 December 2017	Within 1 year	1-3 years	Over 3 years	Total
Finance lease receivables	9,780,047	14,137,818	6,032,935	29,950,800
Unrealised revenue	(515,497)	(342,831)	(2,271,801)	(3,130,129)
Allowance	(7,895)	(534,327)	(8,874)	(551,096)
Net	9,256,655	13,260,660	3,752,260	26,269,575

As at 31 December 2016	Within 1 year	1-3 years	Over 3 years	Total
Finance lease receivables	5,700,216	10,174,823	4,956,010	20,831,049
Unrealised revenue	(938,762)	(1,114,409)	(262,120)	(2,315,291)
Allowance	(81,662)	(155,182)	(79,805)	(316,649)
Net	4,679,792	8,905,232	4,614,085	18,199,109

The Group's finance lease receivables are all managed by its subsidiary Huishang Bank Financial Leasing Co., Ltd. For the year ended 31 December 2017, the principle of the Group's top five finance lease receivables and the related allowance are RMB1,783,452 thousand and RMB30,514 thousand respectively, which accounted for 5.95% and 5.54% of the total balance respectively (31 December 2016: the principle of the Group's top five finance lease receivables and the related allowance are RMB2,222,275 thousand and RMB33,867 thousand respectively, which accounted for 10.67% and 10.70% of the total balance respectively).

27 OTHER ASSETS

	As at 31 December 2017	As at 31 December 2016
Interest receivable ^(a)	5,907,415	3,696,629
Other receivables ^(b)	830,986	711,076
Less: impairment allowance	(114,997)	(97,804)
Funds to be settled	873,282	168,315
Long-term prepaid expenses	237,114	245,395
Land use rights ^(c)	157,590	160,481
Foreclosed assets	399,902	149,672
Deduction: allowance for impairment losses	(150,238)	(38)
Intangible assets ^(d)	164,015	109,663
Others	223,980	137,457
Deduction: allowance for impairment losses	(28,949)	–
	8,500,100	5,280,846

(a) Interest receivable

	As at 31 December 2017	As at 31 December 2016
Investment securities and financial assets at fair value through profit or loss	4,977,660	2,884,928
Loans and advances to customers	696,658	664,423
Placements with and loans and advances to banks, other financial institutions, and the central bank	50,614	54,410
Finance leases	182,483	92,868
	5,907,415	3,696,629

Notes to the Consolidated Financial Statements

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

27 OTHER ASSETS (Continued)

(b) Other receivables

The Group's other receivables are analysed by age as follows:

As at 31 December 2017	Within 1 year	1-3 years	Over 3 years	Total
Other receivables	643,934	176,719	10,333	830,986
Bad debt allowance	(62,733)	(43,164)	(9,100)	(114,997)
Net	581,201	133,555	1,233	715,989

As at 31 December 2016	Within 1 year	1-3 years	Over 3 years	Total
Other receivables	613,267	89,840	7,969	711,076
Bad debt allowance	(52,598)	(39,602)	(5,604)	(97,804)
Net	560,669	50,238	2,365	613,272

(c) Land use rights

	Year ended 31 December 2017	Year ended 31 December 2016
Cost		
Balance at beginning of the year	171,835	171,835
Additions	25,600	–
Disposals	(26,572)	–
Balance at end of the year	170,863	171,835
Accumulated amortization		
Balance at beginning of the year	(11,354)	(7,128)
Additions	(4,570)	(4,226)
Disposals	2,651	–
Balance at end of the year	(13,273)	(11,354)
Net book value		
At end of the year	157,590	160,481

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

27 OTHER ASSETS (Continued)

(d) Intangible assets

Intangible assets of the Group mainly are computer software.

	Year ended 31 December 2017	Year ended 31 December 2016
Cost		
Balance at beginning of the year	284,345	235,110
Additions	69,633	49,235
Transfers in	26,186	–
Balance at end of the year	380,164	284,345
Accumulated amortisation		
Balance at beginning of the year	(174,682)	(143,662)
Additions	(41,467)	(31,020)
Balance at end of the year	(216,149)	(174,682)
Net book value		
At end of the year	164,015	109,663

28 IMPAIRMENT ALLOWANCE

	As at 1 January 2017	Additions	Recovery	Reversal	Write-off	As at 31 December 2017
Loans and advances	(8,034,507)	(4,263,111)	(215,746)	57,259	2,970,501	(9,485,604)
Deposits with banks and other financial institutions	(3)	–	–	–	–	(3)
Foreclosed assets	(38)	(150,200)	–	–	–	(150,238)
Financial assets available-for-sale	(892,508)	159,257	–	–	429,184	(304,067)
Financial assets debt instrument classified as receivables	(1,611,771)	(2,669,643)	–	–	–	(4,281,414)
Finance lease receivables	(316,649)	(234,447)	–	–	–	(551,096)
Other receivables	(97,804)	(15,465)	(1,728)	–	–	(114,997)
Other assets other impairment allowance	–	(28,949)	–	–	–	(28,949)
	(10,953,280)	(7,202,558)	(217,474)	57,259	3,399,685	(14,916,368)

Notes to the Consolidated Financial Statements

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

28 IMPAIRMENT ALLOWANCE (Continued)

	As at 1 January 2016	Additions	Recovery	Reversal	Write-off	As at 31 December 2016
Loans and advances	(6,006,089)	(4,767,504)	(157,829)	89,404	2,807,511	(8,034,507)
Deposits with banks and other financial institutions	(3)	-	-	-	-	(3)
Foreclosed assets	(38)	-	-	-	-	(38)
Financial assets available-for-sale	(462,316)	(430,252)	-	-	60	(892,508)
Financial assets Debt instrument classified as receivables	(631,926)	(979,845)	-	-	-	(1,611,771)
Finance lease receivables	(95,273)	(221,376)	-	-	-	(316,649)
Other receivables	(29,109)	(87,936)	(62)	-	19,303	(97,804)
	(7,224,754)	(6,486,913)	(157,891)	89,404	2,826,874	(10,953,280)

29 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2017	As at 31 December 2016
Banks in Mainland China	29,368,839	49,242,466
Other financial institutions in Mainland China	66,445,760	33,892,643
Banks outside Mainland China	-	81,193
	95,814,599	83,216,302

30 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2017	As at 31 December 2016
Banks in Mainland China	25,427,912	15,352,085

31 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December 2017	As at 31 December 2016
Securities sold under repurchase agreements	66,401,998	25,768,996
Bills sold under repurchase agreements	4,200,681	4,386,716
Precious metals sold under repurchase agreements	4,327,996	2,463,530
	74,930,675	32,619,242

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32 DEPOSITS FROM CUSTOMERS

	As at 31 December 2017	As at 31 December 2016
Corporate demand deposits	224,343,699	191,066,901
Corporate time deposits	144,566,563	141,819,676
Retail demand deposits	48,939,116	43,420,520
Retail time deposits	74,352,685	62,111,749
Other deposits	20,606,119	23,595,563
	512,808,182	462,014,409
Including:		
Pledged deposits held as collateral	20,025,327	23,116,729

33 TAX PAYABLE

	As at 31 December 2017	As at 31 December 2016
Corporate income tax	2,503,080	1,500,281
Value-added tax	245,459	5,986
Business tax and surcharges	32,355	2,396
Others	41,736	50,598
	2,822,630	1,559,261

34 OTHER LIABILITIES

	As at 31 December 2017	As at 31 December 2016
Interest payable ^(a)	9,271,288	7,094,657
Dividends payable ^(b)	187,139	200,398
Unearned rent and deposits under lease arrangements ^(c)	2,427,635	1,973,109
Funds to be settled	1,858,279	2,942,733
Asset-Back Securitization commissioned collection	2,529,965	299,798
Salary and welfare payable ^(d)	1,706,324	1,598,652
Entrusted services	340,225	187,456
Suspense account	53,015	35,589
Project funds payable	37,462	27,518
Others	1,244,475	954,574
	19,655,807	15,314,484

Notes to the Consolidated Financial Statements

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

34 OTHER LIABILITIES (Continued)

(a) Interest payable

	As at 31 December 2017	As at 31 December 2016
Deposits from customers	7,003,405	5,426,726
Deposits and placement from banks and other financial institutions	1,623,935	1,021,972
Debt securities issued	642,458	645,959
Interest payable of borrowing from central bank	1,490	–
	9,271,288	7,094,657

(b) Dividends payable

As at 22 June 2017, the General Meetings of Shareholders was held and decided to distribute cash dividends to all shareholders. Details are listed in Note 39.

(c) Unearned rent and deposits under lease arrangements

As at 31 December 2017, the Group's unearned rent and deposits under lease arrangements were all contributed by its subsidiary Huishang Bank Financial Leasing Co., Ltd., which include the deposits and deferred income of finance leases.

(d) Salary and welfare payable

	As at 31 December 2017	As at 31 December 2016
Short-term employee benefits	1,630,649	1,501,825
Termination benefits	57,361	76,050
Defined contribution plans	18,314	20,777
	1,706,324	1,598,652

Notes to the Consolidated Financial Statements

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

34 OTHER LIABILITIES (Continued)

(d) Salary and welfare payable (Continued)

Short-term employee benefits

	As at 1 January 2017	Increase in current year	Decrease in current year	As at 31 December 2017
Wages, bonuses, allowances and subsidies	1,163,894	2,407,962	(2,282,486)	1,289,370
Employee benefits	–	148,586	(148,373)	213
Social insurance	850	89,521	(89,561)	810
Including: Medical Insurance	779	80,685	(81,303)	161
Occupational Injury Insurance	36	2,327	(2,328)	35
Maternity Insurance	35	6,509	(5,930)	614
Housing fund	3,079	144,963	(146,819)	1,223
Labour union fee and staff education fee	20,189	88,329	(83,298)	25,220
Other short-term employee benefits	313,813	–	–	313,813
	1,501,825	2,879,361	(2,750,537)	1,630,649

	As at 1 January 2016	Increase in current year	Decrease in current year	As at 31 December 2016
Wages, bonuses, allowances and subsidies	882,918	2,072,651	(1,791,675)	1,163,894
Employee benefits	187	120,081	(120,268)	–
Social insurance	886	72,802	(72,838)	850
Including: Medical Insurance	822	64,705	(64,748)	779
Occupational Injury Insurance	32	2,001	(1,997)	36
Maternity Insurance	32	6,096	(6,093)	35
Housing fund	906	138,970	(136,797)	3,079
Labour union fee and staff education fee	13,719	75,525	(69,055)	20,189
Other short-term employee benefits	313,813	37,383	(37,383)	313,813
	1,212,429	2,517,412	(2,228,016)	1,501,825

Notes to the Consolidated Financial Statements

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

34 OTHER LIABILITIES (Continued)

(d) Salary and welfare payable (Continued)

Defined contribution plans

	As at 1 January 2017	Increase in current year	Decrease in current year	As at 31 December 2017
Basic pension insurance	6,444	173,972	(173,181)	7,235
Unemployment Insurance	271	6,344	(6,219)	396
Annuity scheme	14,062	173,691	(177,070)	10,683
	20,777	354,007	(356,470)	18,314

	As at 1 January 2016	Increase in current year	Decrease in current year	As at 31 December 2016
Basic pension insurance	5,395	140,442	(139,393)	6,444
Unemployment Insurance	226	9,901	(9,856)	271
Annuity scheme	23,603	136,424	(145,965)	14,062
	29,224	286,767	(295,214)	20,777

Termination benefits

	As at 31 December 2017	As at 31 December 2016
Early retirement benefits	57,361	76,050

(e) Unearned rent and deposits under lease arrangements

As at 31 December 2017, the Group's unearned rent and deposits under lease arrangements are all contributed by its subsidiary Huishang Bank Financial Leasing Co., Ltd., which include the deposits and deferred income of finance lease.

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35 DEFERRED INCOME TAXES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority. The movement in the deferred income tax account is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Balance at beginning of the year	2,309,106	1,274,063
Charged to consolidated comprehensive income statement	2,165,631	904,582
Credited to shareholders' equity	249,750	130,461
Balance at end of the year	4,724,487	2,309,106

Items included in deferred tax assets and liabilities are as follows:

	As at 31 December 2017	As at 31 December 2016
Deferred tax assets		
Impairment allowance for assets	3,688,417	1,917,144
Salary and welfare payable	386,399	337,951
Changes in fair value	475,352	50,297
Others	174,319	99,047
	4,724,487	2,404,439
Deferred income tax liabilities		
Others	-	(95,333)
Deferred tax assets, net	4,724,487	2,309,106

Deferred taxes recorded in the income statement and the year comprise the following temporary differences:

	2017	2016
Impairment allowance for assets	1,771,273	838,253
Salary and welfare payable	48,448	79,203
Changes in fair value	270,638	(79,104)
Others	75,272	66,230
	2,165,631	904,582

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

36 DEBT SECURITIES ISSUED

	As at 31 December 2017	As at 31 December 2016
Subordinated debts with fixed rate-2026 ^(a)	3,994,067	3,993,248
Financial bonds for SMEs-2018 ^(b)	2,199,018	2,198,324
Financial bonds 01-2018 ^(c)	3,499,480	3,498,440
Financial bonds 02-2020 ^(d)	499,785	499,700
Tier 2 capital bonds-2025 ^(e)	7,988,736	7,987,518
Financial bonds 03-2018 ^(f)	3,499,322	3,498,364
Financial bonds 04-2020 ^(g)	499,775	499,696
Financial bonds 01-2019 ^(h)	6,999,462	6,999,134
Financial bonds 02-2021 ⁽ⁱ⁾	2,999,688	2,999,607
Huishang bank Green Finance 17 ^(j)	999,843	-
Interbank certificates of deposit issued ^(k)	82,001,181	59,331,219
	115,180,357	91,505,250

- (a) The Group issued RMB4 billion of subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Group has an option to redeem these debts at face value on 2 April 2021.

Claims on subordinated debts are posterior to other liabilities but prior to the Group's share capital. From 1 January 2013, they are qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

- (b) The Group issued RMB2.2 billion of financial bonds designated for SMEs lending on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.50%, paid annually.
- (c) The Group issued RMB3.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.15%, paid annually.
- (d) The Group issued RMB0.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.
- (e) The Group issued RMB8.0 billion of Tier 2 capital bonds on 11 September 2015 in China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Group has an option to redeem part or all of the bonds at face value on 11 September 2020, subject to regulatory approval. Tier 2 capital bonds' right of recourse is subordinate to depositors and ordinary debts and is superior to equity, other Tier 1 capital instruments and mixed capital debts.
- (f) The Group issued RMB3.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.90%, paid annually.

Notes to the Consolidated Financial Statements

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

36 DEBT SECURITIES ISSUED (Continued)

- (g) The Group issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.10%, paid annually.
- (h) The Group issued RMB7 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- (i) The Group issued RMB3 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- (j) The Group issued RMB1 billion of financial bonds on 8 September 2017 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.49%, paid annually.
- (k) The Group issued 225 interbank certificates of deposit with a total face value of RMB253.09 billion with the maturity ranging from one month to one year, at zero coupon. The Group issued 2 interbank certificates of deposit with total face value of RMB0.3 billion, with a maturity of 3 years and floating rate. As at 30 June 2017, the face value of the undue interbank certificates of deposit issued was 83.25 billion.

As at 31 December 2017, there were no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

37 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE

(a) Share capital

The Bank's share capital is comprised of fully paid common shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at 31 December 2017	As at 31 December 2016
Number of authorised shares fully paid in issue (in thousand)	11,049,819	11,049,819

(b) Other Equity Instruments

Preference shares outstanding as at the end of the year

	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Original Currency (USD)	Maturity (RMB)	Maturity date	Conversion conditions
31 December 2017	10 November 2016	Equity instruments	5.50%	\$20/share	44.4	888,000	6,028,188	No maturity date	None
Preference Shares									
Total amount							6,028,188		
Less: issuance fee							(38,098)		
Carrying amount							5,990,090		

Notes to the Consolidated Financial Statements

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

37 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(b) Other Equity Instruments (Continued)

Changes in preference shares outstanding

	1 January 2017		Increase		31 December 2017	
	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)
Offshore Preference Shares	44.4	5,990,090	-	-	44.4	5,990,090

	1 January 2016		Increase		31 December 2016	
	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)
Offshore Preference Shares	-	-	44.4	5,990,090	44.4	5,990,090

The key terms are as follows:

(1) Dividend

The initial annual dividend rate is 5.50% and is subsequently subject to reset per agreement. Subject to a resolution to be passed at a shareholders' general meeting of the Bank, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the Conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due and payable. Dividend payment method is non-cumulative.

(2) Redemption

The Bank may, subject to obtaining CBRC approval and compliance with the redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem in whole or in part of the Offshore Preference Shares on the first reset date and on any dividend payment date thereafter. The redemption price for the Offshore Preference Share shall be the aggregate of its liquidation priority amount and any declared but unpaid dividends.

Notes to the Consolidated Financial Statements

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

37 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(b) Other Equity Instruments (Continued)

Changes in preference shares outstanding (Continued)

(3) Compulsory conversion of preference shares

If any Trigger Event occurs, the Bank shall (having notified and obtained the consent of the CBRC but without the need for the consent of holders of preference shares or the holders of ordinary shares): irrevocably and compulsorily convert all or some only of the Offshore Preference Shares into such number of H Shares. Offshore preferred stock issued by our bank is classified as equity instruments and listed in equity of the consolidated statement of financial position. The capital raised by the aforesaid overseas preferred shares is used to supplement other first level capital of the Bank and to increase the capital adequacy ratio of the Bank after deducting the issuance expenses.

Interests attributable to the holders of equity instruments

	2017	2016
1. Total equity attributable to equity holders of the Bank	57,703,305	51,871,401
(1) Equity attributable to ordinary equity holders of the Bank	51,713,215	45,881,311
(2) Equity attributable to other equity holders of the Bank	5,990,090	5,990,090
2. Total equity attributable to non-controlling interests	1,508,781	1,311,917

(c) Capital reserve

Transactions of the following natures are recorded in the capital reserve:

- share premium arising from the issuance of shares at prices in excess of their par values;
- donations received from shareholders; and
- any other items required by the PRC regulations.

Capital surplus can be utilised for the issuance of stock dividends or for increasing paid-up capital as approved by the shareholders.

The Group's capital surplus is as follows:

	As at 31 December 2017	As at 31 December 2016
Share premium	6,751,041	6,751,041

Notes to the Consolidated Financial Statements

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

38 OTHER RESERVE

	Surplus reserve ^(a)	General reserve ^(b)
As at 1 January 2016	5,249,966	4,716,293
Appropriation to surplus reserve	1,286,331	–
Appropriation to general reserve	–	1,492,022
As at 31 December 2016	6,536,297	6,208,315
Appropriation to surplus reserve	1,417,004	–
Appropriation to general reserve	–	1,514,212
As at 31 December 2017	7,953,301	7,722,527

(a) Surplus reserve

Pursuant to the Company Law of the PRC and the Group's Articles of Association, the Group is required to appropriate 10% of its net profit in statutory consolidated financial statements to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital. The Bank can appropriate to the discretionary surplus reserve after the appropriation of the statutory surplus reserve has been made. Subject to the approval of the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank.

As at 31 December 2017 and 31 December 2016, the Bank's statutory surplus reserve balances were RMB45.57 million and RMB38.14 million respectively. The others were the discretionary surplus reserve.

(b) General reserve

Pursuant to Cai Jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirements") issued by the Ministry of Finance on 30 March 2012, the general reserve should not be less than 1.5% of the aggregate amount of risk assets, and the minimum threshold can be accumulated over a period of no more than five years. The Requirements were effective from 1 July 2012.

Notes to the Consolidated Financial Statements

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

39 DIVIDENDS

(a) Dividends for Ordinary Shares

	Year ended 31 December 2017	Year ended 31 December 2016
Dividends declared for the period	674,039	1,756,922
Dividends per ordinary share (in RMB Yuan)	0.061	0.159
Dividends paid during the period	687,298	1,766,060

The final dividend of RMB0.061 per share in respect of the year ended 31 December 2016 has been approved by the shareholders in the general meeting.

Under the Company Law of the PRC and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory consolidated financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up cumulative losses from prior years, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank;
- (iii) Allocations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the net profit after tax of the Bank for the purposes of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC Generally Accepted Accounting Principles and (ii) the retained profits determined in accordance with IFRS.

(b) Dividends for Preference Shares

The dividend distribution of Offshore Preference Shares amounting to USD54.27 million (including USD48.84 million at the rate of 5.5% and USD5.42 million of withholding tax at the rate of 10%) was approved by the Board of Directors of the Bank at the Board Meeting held on 25 August 2017 and the dividend was distributed on 10 October 2017. The holders of Offshore Preference Shares are entitled to receive, on a yearly basis, unpaid and non-accumulated dividends payable on a pay-as-you-go basis for each overseas preferred stock.

The convertibility of Preference Shares allow the Bank to have issuable ordinary shares. As at 31 December 2017, the triggering of the conversion of Preference Shares did not take place, and the convertibility of the Preference Shares did not affect the calculation of basic and diluted earnings per share for the year ended 31 December 2017.

Notes to the Consolidated Financial Statements

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

40 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit commitments:

	As at 31 December 2017	As at 31 December 2016
Bank acceptance	27,513,009	39,097,490
Letters of credit issued	7,860,919	3,693,397
Letters of guarantee issued	10,699,447	9,634,980
Loan commitments	1,732,384	1,694,421
Unused credit card lines	14,490,272	8,823,994
	62,296,031	62,944,282

(b) Capital commitments

	As at 31 December 2017	As at 31 December 2016
Contracted but not provided for	315,204	120,689

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings under non-cancellable operating leases are as follows:

	As at 31 December 2017	As at 31 December 2016
Within 1 year	285,219	297,607
Between 1 year to 5 years	718,124	770,940
Later than 5 years	246,387	243,015
	1,249,730	1,311,562

(d) Treasury bond redemption commitments

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2017 and 31 December 2016, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity were RMB2.88 billion and RMB1.69 billion respectively.

Notes to the Consolidated Financial Statements

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

40 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(e) Legal proceedings

During the reporting period, the Group is involved as defendants in certain lawsuits arising from its normal business operations. At 31 December 2017, a provision for litigation losses as advised by in-house or external legal professionals was RMB0.23 billion (31 December 2016: RMB0.14 billion). Based on the expected amount of repayment and the expected indemnification assets that may be obtained, management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

41 COLLATERAL

(a) Pledged assets

Assets are pledged as collateral under repurchase agreements and for treasury deposits with other banks and the Ministry of Finance.

	As at 31 December 2017	As at 31 December 2016
Available-for-sale financial assets	25,317,750	11,353,104
Held-to-maturity investments	13,464,394	12,952,985
Discounted bills	4,221,575	4,382,331
	43,003,719	28,688,420

The carrying value of financial assets sold under repurchase agreements by the Group as at 31 December 2017 was RMB74,931 million (as at 31 December 2016: RMB32,619 million) as set out in Note 31. Repurchase agreements are primarily due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. The debt securities with title transferred to counterparties recorded in financial assets sold under repurchase agreements that the Group did not derecognise amounted to zero as at 31 December 2017 (as at 31 December 2016: Nil).

In addition, the Group has no debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions.

(b) Collateral accepted

The Group accepted debt securities, bills and other assets as collateral in connection with the purchase of assets under resale agreements. Certain of these collaterals can be resold or re-pledged. The Group has accepted collateral that can be resold or re-pledged with a carrying amount of RMB20,606 million as at 31 December 2017 (31 December 2016: RMB516 million). The Group has accepted collateral that can be re-pledged and the Group has the right to return with a carrying amount of zero as at 31 December 2017 (as at 31 December 2016: Nil).

Notes to the Consolidated Financial Statements

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

42 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 31 December 2017	As at 31 December 2016
Financial guarantees and credit related commitments	24,496,468	22,737,419

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit related commitments.

43 INVESTMENT REVALUATION RESERVE

	Year ended 31 December 2017		
	Pre-tax amount	Tax charge	Net-of-tax amount
Balance at 1 January 2017	(160,996)	40,249	(120,747)
Fair value changes in available-for-sale financial assets	(897,943)	224,486	(673,457)
Deduct: Included in the current profit and loss	(101,057)	25,264	(75,793)
Balance at 31 December 2017	(1,159,996)	289,999	(869,997)

	Year ended 31 December 2016		
	Pre-tax amount	Tax charge	Net-of-tax amount
Balance at 1 January 2016	360,848	(90,212)	270,636
Fair value changes in available-for-sale	(650,441)	162,610	(487,831)
Deduct: Included in the current profit and loss	128,597	(32,149)	96,448
Balance at 31 December 2016	(160,996)	40,249	(120,747)

Notes to the Consolidated Financial Statements

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

44 STRUCTURED ENTITIES

(a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are mainly WMPs issued and managed by the Bank acting as an agent, which are not subject to any guarantee by the group of the principal invested or interest to be paid. WMPs were mainly invested in money market instruments, bonds and loan assets etc. The raised funds were invested in related financial markets or financial products in accordance with the product contracts. Gains would be allocated to investors after the Group gained from investment. The Group receives commission income as the manager of these WMPs. As at 31 December 2017 and 31 December 2016, total wealth commission income the Group received are 739.87 million and 328.34 million respectively. The Group considered its variable returns from the structured entities are insignificant and hence they are not consolidated.

As at 31 December 2017, the carrying value of the off-balance sheet wealth management the Group issued and managed is RMB86,306 million (as at 31 December 2016: RMB71,449 million). As at 31 December 2017 the Group's maximum exposure to these unconsolidated structured entities is zero (as at 31 December 2016: Nil).

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk or reduce its interest in WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by WMPs before other parties. In 2017, no loss was incurred by the WMP vehicles relating to the Group's interests in the WMP vehicles, and the WMP vehicles did not experience difficulty in financing their activities.

(b) Unconsolidated structured entities invested by the Group

To maximise the usage of capital, the Group enters into transactions with unconsolidated structured entities which include WMPs, the trust fund and asset management plan schemes issued and managed by other independent third parties for the years ended 31 December 2017 and 31 December 2016. The Group classifies these assets into "debt instruments classified as receivables" or "available-for-sale financial assets" based on their nature. As the investor of these entities, the Group earns interest from these transactions. The Group had not provided any liquidity support to these unconsolidated structured entities the years ended 31 December 2017 and 31 December 2016.

Notes to the Consolidated Financial Statements

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

44 STRUCTURED ENTITIES (Continued)

(b) Unconsolidated structured entities invested by the Group (Continued)

The table below shows the carrying value and scale of unconsolidated structured entities invested by the Group, as well as its maximum exposure to loss in relation to those interests.

	Carrying Value	Maximum Exposure to Loss
At 31 December 2017		
Debt instruments classified as receivables		
– Guaranteed WMPs	7,850,000	7,850,000
– Trust fund and asset management plan	203,663,488	203,663,488
Available-for-sale financial assets		
– Non-guaranteed WMPs	10,000,000	10,000,000
– Trust fund and asset management plan	62,111,292	62,111,292

	Carrying Value	Maximum Exposure to Loss
At 31 December 2016		
Debt instruments classified as receivables		
– Guaranteed WMPs	6,000,000	6,000,000
– Beneficial rights in trust and asset management plans	153,565,483	153,565,483
Available-for-sale financial assets		
– Non-guaranteed WMPs	13,500,000	13,500,000
– Beneficial rights in trust and asset management plans	59,721,155	59,721,155

The information of total size of the unconsolidated structured entities listed above is not readily available.

(c) Consolidated structured entities

Consolidated structured entities include guaranteed WMPs established and managed by the Group and the beneficial rights in trust and asset management plans which the Group made the investment decision.

The Group did not provide any liquidity support to these consolidated structured entities at the years ended 31 December 2017 and 31 December 2016.

Notes to the Consolidated Financial Statements

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

45 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

- (a) For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months and are used for the purpose of meeting short-term cash commitments:

	As at 31 December 2017	As at 31 December 2016
Cash	1,292,408	1,352,992
Surplus reserve with the central bank	17,557,339	14,707,291
Deposits with banks and other financial institutions	8,430,699	12,714,188
	27,280,446	28,774,471

- (b) **Changes in liabilities arising from financing activities**

	Debt securities issued	Interest payable of debt securities issued	Dividends payable
At 1 January 2017	91,505,250	645,959	200,398
Proceeds from issuance of debt securities	253,390,000	-	-
Interest paid on debt issued	-	(1,468,210)	-
Cash paid relating to debt repayments	(232,952,293)	-	-
Dividends paid on debt issued	-	-	(1,046,989)
Interest expense	3,237,400	1,464,709	-
Dividends declared	-	-	1,033,730
At 31 December 2017	115,180,357	642,458	187,139

46 CREDIT ASSETS SECURITISATION TRANSACTIONS

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition the Group derecognised the transferred credit assets in their entirety. As at 31 December 2017, loans with an original carrying amount of RMB2,855 million (2016: RMB656 million) had been securitised by the Group under arrangements that the bank derecognised those assets, while recorded the investment of those securitise amounting to RMB706 million (2016: RMB27 million) as available-for-sale financial assets.

Notes to the Consolidated Financial Statements

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

47 RELATED PARTY TRANSACTIONS

(1) Related parties

The table below listed legal entities of the Group with a shareholding ratio greater than 5%:

Major related legal entities with the Group	Share percentage (%)
Zhongjing Xinhua Asset Investment Management Co., Ltd.	14.86%
Anhui Province Energy Group Co.	10.90%
China Vanke Co., Ltd.	8.00%
Anhui Guoyuan Holding (Group) Co.	7.19%
Anhui Credit Guaranty Group Co.	6.81%

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with major shareholders and balances

As at the end of the reporting period, the balances and interest rate ranges of transactions with major shareholders of the Group are as follows:

	As at 31 December 2017	As at 31 December 2016
Loans and advances to customers	2,283,000	2,079,998
Financial assets	17,446	24,116
Placements from banks and other financial institutions	355,402	219,105
Deposits from customers	1,110,002	2,855,395
Bank acceptance	7,884	2,090
Letters of guarantee issued	1,965	–
	3,775,699	5,180,704

	As at 31 December 2017	As at 31 December 2016
Loans and advances to customers	3.63%-3.96%	4.75%-5.70%
Placements from banks and other financial institutions	0.30%-4.90%	0.30%-3.00%
Deposits from customers	0.30%-1.61%	0.30%-1.30%

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

47 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(a) Transactions with major shareholders and balances (Continued)

As for the periods stated below, the interest income and expense of loans and deposits with respect to major shareholders are as follows:

	2017	2016
Interest income	98,127	11,601
Interest expense	6,910	13,652
Management fee of asset management plans	10,576	2,322

(b) Transactions with other related parties

As at the end of the reporting period, the balances and interest rate ranges of transactions with other related parties of the Group are as follows:

	As at 31 December 2017	As at 31 December 2016
Placements with banks and other financial institutions	–	200,000
Loans and advances to customers	652,073	5,081
Financial assets	721,894	213,445
Placements from banks and other financial institutions	258,775	81,734
Deposits from customers	551,370	267,549
Bank acceptance	2,676	1,183
Letters of guarantee issued	8,580	10,945
	2,196,068	779,937

	As at 31 December 2017	As at 31 December 2016
Placements with banks and other financial institutions	–	4.30%
Loans and advances to customers	3.63%-6.24%	3.43%-5.39%
Placements from banks and other financial institutions	0.72%-1.09%	0.72%-1.08%
Deposits from customers	0.30%-1.61%	0.30%-1.82%

As for the periods stated below, the interest income and expense of loans and deposits with respect to other related parties are as follows:

	2017	2016
Interest income	29,990	146
Interest expense	4,274	509

The Group granted a five-year housing mortgage loan to one of the senior management named Chen Hao, with an annual interest rate of 3.56% in 2017. As at 31 December 2017, the loan balance was RMB0.69 million (31 December 2016: RMB1.07 million).

Notes to the Consolidated Financial Statements

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

47 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(c) Emoluments for directors, supervisors and senior management

	2017	2016
Emoluments for directors, supervisors and senior management	14,848	15,576

48 SEGMENT ANALYSIS

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 below:

Corporate banking

Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and WMPs.

Retail banking

Services to retail customers including savings deposits, personal loans and advances, credit cards and debit cards, payments and settlements, WMPs and funds and insurance agency services.

Treasury

Treasury segment conducts securities investment, money market and repurchase transactions. The results of this segment include the intersegment funding income and expenses, resulting from interest-bearing assets and liabilities and foreign currency translation gains and losses.

Others

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

Geographically, the Group mainly conducts its business in PRC and opens branches in Anhui Province and the Yangtze River Delta area. When listing information based on geographic areas, revenue is divided by the location where the branches are located; assets and liabilities and capital expense of segments are divided by the branch they belong to.

Notes to the Consolidated Financial Statements

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

48 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2017				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	10,703,234	3,969,043	23,424,402	1,319,576	39,416,255
Net interest expense to external customers	(5,078,488)	(1,781,094)	(11,417,456)	(942,680)	(19,219,718)
Intersegment net interest income/(expense)	3,928,849	1,006,298	(4,935,147)	-	-
Net interest income	9,553,595	3,194,247	7,071,799	376,896	20,196,537
Net fee and commission income	1,779,230	541,569	323,247	199,625	2,843,671
Net trading losses	-	-	(439,738)	-	(439,738)
Net losses from investment securities	-	-	(76,160)	-	(76,160)
Dividends	-	-	640	-	640
Other operating income	-	-	(114,314)	97,689	(16,625)
Operating expenses	(2,451,660)	(1,908,912)	(1,119,872)	(349,695)	(5,830,139)
– Depreciation and amortisation	(210,778)	(199,208)	(12,247)	(17,292)	(439,525)
Impairment losses on assets	(3,794,649)	(853,109)	(2,510,386)	(44,414)	(7,202,558)
Share of profits and losses of associates	-	-	-	137,136	137,136
Profit before income tax	5,086,516	973,795	3,135,216	417,237	9,612,764
Capital expenditure	378,982	314,781	20,724	29,260	743,747

	As at 31 December 2017				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	265,527,606	130,793,376	505,777,497	1,276,731	903,375,210
<i>Including: investment in associates</i>	-	-	-	971,050	971,050
Deferred tax assets					4,724,487
Total assets					908,099,697
Segment liabilities	(400,549,661)	(126,085,619)	(321,277,442)	(974,889)	(848,887,611)
Off-balance sheet credit commitments	47,846,499	14,449,532	-	-	62,296,031

Notes to the Consolidated Financial Statements

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

48 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2016				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	10,182,676	3,251,179	18,330,143	937,944	32,701,942
Net interest expense to external customers	(5,066,079)	(1,575,906)	(7,278,456)	(441,880)	(14,362,321)
Intersegment net interest income/(expense)	3,874,336	1,460,371	(5,334,707)	-	-
Net interest income	8,990,933	3,135,644	5,716,980	496,064	18,339,621
Net fee and commission income	1,670,969	559,343	67,362	193,462	2,491,136
Net trading gains	-	-	75,976	-	75,976
Net losses from investment securities	-	-	(67,011)	-	(67,011)
Dividends	-	-	2,770	-	2,770
Other operating income	-	-	8,651	67,266	75,917
Operating expenses	(2,524,260)	(1,727,121)	(1,233,468)	(278,187)	(5,763,036)
– Depreciation and amortisation	(192,255)	(167,496)	(6,297)	(6,815)	(372,863)
Impairment losses on assets	(3,577,327)	(1,095,615)	(1,568,641)	(245,330)	(6,486,913)
Share of profits and losses of associates	-	-	-	144,065	144,065
Profit before income tax	4,560,315	872,251	3,002,619	377,340	8,812,525
Capital expenditure	248,832	216,787	8,150	5,762	479,531

	As at 31 December 2016				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	191,487,729	80,833,729	455,467,749	24,675,681	752,464,888
<i>Including: investment in associates</i>	-	-	-	538,646	538,646
Deferred tax assets					2,309,106
Total assets					754,773,994
Segment liabilities	(358,825,240)	(106,448,458)	(215,793,607)	(20,523,371)	(701,590,676)
Off-balance sheet credit commitments	54,035,530	8,823,994	-	84,758	62,944,282

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

48 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2017				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	15,559,962	1,938,768	21,917,525	-	39,416,255
Net interest expense to external customers	(6,515,215)	(1,151,287)	(11,553,216)	-	(19,219,718)
Intersegment net interest income/(expense)	4,339,652	330,960	(4,670,612)	-	-
Net interest income	13,384,399	1,118,441	5,693,697	-	20,196,537
Net fee and commission income	1,002,857	73,620	1,767,194	-	2,843,671
Net trading gains/(losses)	63,721	595	(504,054)	-	(439,738)
Net losses from investment securities	-	-	(76,160)	-	(76,160)
Dividends	-	-	640	-	640
Other operating income	(20)	(2,139)	(14,466)	-	(16,625)
Operating expenses	(3,472,383)	(262,533)	(2,095,223)	-	(5,830,139)
– Depreciation and amortisation	(307,242)	(5,549)	(126,734)	-	(439,525)
Impairment losses on assets	(4,769,302)	(381,736)	(2,051,520)	-	(7,202,558)
Share of profits and losses of associates	-	-	137,136	-	137,136
Profit before income tax	6,209,272	546,248	2,857,244	-	9,612,764
Capital expenditure	519,902	9,391	214,454	-	743,747

	As at 31 December 2017				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	570,818,855	59,807,817	491,834,396	(219,085,858)	903,375,210
<i>Including: investment in associates</i>	-	-	971,050	-	971,050
Deferred tax assets					4,724,487
Total assets					908,099,697
Segment liabilities	(324,099,318)	(55,448,874)	(688,425,277)	219,085,858	(848,887,611)
Off-balance sheet credit commitments	33,579,238	6,545,144	22,171,649	-	62,296,031

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

48 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2016				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	12,215,997	2,251,812	18,234,133	–	32,701,942
Net interest expense to external customers	(4,859,891)	(1,501,726)	(8,000,704)	–	(14,362,321)
Intersegment net interest income/(expense)	4,515,595	336,987	(4,852,582)	–	–
Net interest income	11,871,701	1,087,073	5,380,847	–	18,339,621
Net fee and commission income	952,855	38,437	1,499,844	–	2,491,136
Net trading gains	12,966	392	62,618	–	75,976
Net losses from investment securities	–	–	(67,011)	–	(67,011)
Dividends	–	–	2,770	–	2,770
Other operating income	54,678	519	20,720	–	75,917
Operating expenses	(2,736,977)	(244,225)	(2,781,834)	–	(5,763,036)
– Depreciation and amortisation	(236,613)	(15,334)	(120,916)	–	(372,863)
Impairment losses on assets	(4,640,771)	(371,849)	(1,474,293)	–	(6,486,913)
Share of profits and losses of associates	–	–	144,065	–	144,065
Profit before income tax	5,514,452	510,347	2,787,726	–	8,812,525
Capital expenditure	314,318	2,887	162,326	–	479,531

	As at 31 December 2016				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	453,208,136	49,295,573	435,162,644	(185,201,465)	752,464,888
<i>Including: investment in associates</i>	–	–	538,646	–	538,646
Deferred tax assets					2,309,106
Total assets					754,773,994
Segment liabilities	(266,681,483)	(45,906,274)	(574,204,384)	185,201,465	(701,590,676)
Off-balance sheet credit commitments	38,223,624	5,479,816	19,240,842	–	62,944,282

There were no material transactions with a single external customer that the Group mainly relies on.

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in the business. The Group's aim is therefore to achieve an appropriate balance between risks and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The most important types of risks are credit risk, liquidity risk and market risk which also includes currency risk and interest rate risk.

The Board of Directors is responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

49.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally in loans and advances to banks, customers and securities. There is also credit risk in off-balance sheet financial arrangements: such as loan commitments. The Group mainly conducts its business in Anhui Province of the PRC, indicating a concentration risk in the Group's credit portfolio which makes it vulnerable to economic changes in the region. Management therefore carefully manages its exposure to credit risks. The credit risk management and control are centralised in the Risk Management Department of Head Office and reported to management regularly.

49.1.1 Credit risk measurement

(i) *Loans and advances and off-balance sheet commitments*

The Group measures and manages the credit quality of its credit assets through five-category system based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely pass, special-mention, substandard, doubtful and loss categories, among which loan classified in sub-standard, doubtful and loss categories are regarded as non-performing loans.

The five categories are defined by the Guideline as follows:

Pass: loans for which borrowers can honor the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.1 Credit risk measurement (Continued)

(i) *Loans and advances and off-balance sheet commitments (Continued)*

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of the loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service the loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of the loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back 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 resorting to necessary legal procedures.

(ii) *Debt securities and other bills*

The Group manages the credit risk through restriction on the types of and management of issuers of debt securities and other bills invested. So far, the Group holds no foreign currency bonds.

(iii) *Deposits with banks and other financial institutions, Placements with banks and other financial institutions and Financial assets held under resale agreements*

The Group's Head Office executes regular review and management of credit risk related to individual financial institutions, and sets credit lines for individual banks and other financial institutions that it conducts business with.

(iv) *Other financial assets classified as loans, receivables and available-for-sale financial assets*

Other financial assets classified as loans, receivables, and available-for-sale financial assets, include WMPs issued and managed by other banks, trust plans and asset management plans. The Group set up credit limit for parties repurchasing trust beneficial rights, issuers of WMPs, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

49.1.2 Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.2 Risk limit control and mitigation policies (Continued)

The Group grants branches and business departments operational authority from Head Office. Based on the status of geographical economy, management level of branches, types of credit products, types of credit rating, collateral type, and scale of customers, Head Office gives dynamic authority to its branches with respect to credit business. Such authorities are monitored on a revolving basis and subject to a regular review to make sure operations of the branches are within limits of authority granted.

(i) *Credit risk mitigation policies*

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent of these is taken by the Group include the taking of physical or cash collateral, cash deposit and corporate or individual guarantees.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Property and land use rights
- General movable assets
- Time deposit certificates, debt securities and commodity warehouse receipts, etc.

The fair value of collateral should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collaterals. The principal collateral types and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral	Maximum loan-to-value ratio
Residential property, commercial property, and construction land use rights	70%
Office buildings	60%
General movable assets	50%
RMB deposit receipts, bank notes, government bonds	90%
Debt securities issued by financial institutions	80%
Commodity warehouse receipts	60%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.2 Risk limit control and mitigation policies (Continued)

(ii) Credit-related off-balance sheet commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees are irrevocable commitments made by the Group for which the Group must make payments to the third party when its customers fail to satisfy this obligation. Hence, the group carries the same credit risks as loans. The Group usually takes cash collateral to mitigate such credit risk. The Group's maximum exposure to credit risk equals the total amount of credit-related off-balance sheet commitments.

49.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December 2017	As at 31 December 2016
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the central bank	91,065,465	86,706,368
Deposits with banks and other financial institutions	9,699,833	10,960,598
Placement with banks and other financial institutions	3,553,288	19,319,720
Financial assets at fair value through profit or loss	2,695,099	5,742,117
Derivative financial assets	67,479	385,977
Financial assets held under resale agreements	36,027,487	516,183
Loans and advances to customers	305,208,545	269,336,141
Investment securities-available-for-sale	143,305,890	120,384,390
Investment securities-held-to-maturity	61,128,401	52,351,451
Investment securities-debt instruments classified as receivables	211,647,260	159,671,108
Finance lease receivables	26,269,575	18,199,109
Other financial assets	7,496,686	4,478,216
	898,165,008	748,051,378
Credit risk exposures relation to off-balance sheet items are as follows:		
Bank acceptance	27,513,009	39,097,490
Letters of credit	7,860,919	3,693,397
Letters of guarantee	10,699,447	9,634,980
Loan commitments	1,732,384	1,694,421
Unused credit card lines	14,490,272	8,823,994
	62,296,031	62,944,282

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The above table represents the worst-case scenario of credit risk exposure to the Group at 31 December 2017 and 31 December 2016, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As mentioned above, 33.98% of on-balance-sheet exposure is attributable to loans and advances to customers (2016: 36.01%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loans and advances portfolio based on the following:

- 97.53% of the loans and advances portfolio is categorised as Pass of the five-category system (2016: 96.97%);
- Collateralised loans and mortgage loans, which represents the biggest group in the corporate and retail portfolio respectively, are backed by collateral;
- 97.33% of the loans and advances portfolio are considered to be neither past due nor impaired (2016: 97.81%);

49.1.4 Deposits with banks and other financial institutions, Placement with and the loans to banks and other financial institutions and financial assets held under resale agreements

Placements with banks and other financial institutions and financial assets held under resale agreements are neither overdue nor impaired. Their credit risk can be evaluated by the credibility of the counterparties. The Group had accrued sufficient allowance against the impaired deposits with banks and other financial institutions at 31 December 2017 and 31 December 2016.

	As at 31 December 2017	As at 31 December 2016
Commercial banks in Mainland China	42,429,199	21,768,144
Other financial institutions in Mainland China	3,895,904	2,550,845
Commercial banks outside Mainland China	2,955,508	6,477,512
	49,280,611	30,796,501

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers

(a) Analysis of loans and advances to customers by industry

Concentrations of credit risk of loans and advances to customers by industry are analysed as follows:

	As at 31 December 2017		As at 31 December 2016	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	48,783,124	15	58,132,854	21
Manufacturing	43,127,921	14	40,993,942	14
Public utilities	48,757,518	15	36,511,110	13
Real estate	11,895,332	3	11,100,001	4
Construction	14,722,807	4	12,766,086	5
Transportation	5,923,858	2	3,949,700	1
Energy and chemistry	5,888,697	2	5,903,036	2
Catering and travelling	1,536,054	1	1,874,180	1
Education and media	1,071,775	1	1,880,063	1
Financial services	4,114,863	1	4,456,635	2
Others	1,288,844	1	1,633,863	1
Discounted bills	15,209,815	6	16,761,362	6
Subtotal	202,320,608	65	195,962,832	71
Personal loans and advances				
Mortgages	84,738,585	26	60,672,004	22
Revolving loans for private business	6,483,121	2	8,689,625	3
Others	21,151,835	7	12,046,187	4
Subtotal	112,373,541	35	81,407,816	29
Total loans and advances to customers, before impairment allowance	314,694,149	100	277,370,648	100

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analysed by security type:

	As at 31 December 2017	As at 31 December 2016
Unsecured	40,465,891	33,628,711
Guaranteed	59,224,305	70,179,467
Collateralised	148,639,980	138,688,332
Pledged	66,363,973	34,874,138
Total loans and advances to customers	314,694,149	277,370,648

(c) Analysis of loans and advances to customers by geographical area

	As at 31 December 2017			As at 31 December 2016		
	Total	% NPL ratio		Total	% NPL ratio	
Anhui Province	291,182,838	92.53%	1.05%	254,095,371	91.61%	1.01%
Pan Yangtze River Delta	23,511,311	7.47%	1.01%	23,275,277	8.39%	1.77%
Total loans and advances to customers	314,694,149	100%	1.05%	277,370,648	100.00%	1.07%

(d) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December 2017		As at 31 December 2016	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired ^(e)	196,776,091	111,124,878	191,260,649	80,045,537
Overdue but not impaired ^(f)	2,863,194	630,046	2,431,893	665,263
Impaired ^(g)	2,681,323	618,617	2,270,290	697,016
Total	202,320,608	112,373,541	195,962,832	81,407,816
Less: collectively assessed impairment allowance	(5,679,809)	(2,394,536)	(4,861,318)	(2,021,175)
Individually assessed impairment allowance	(1,411,259)	-	(1,152,014)	-
Total impairment allowance	(7,091,068)	(2,394,536)	(6,013,332)	(2,021,175)
Net	195,229,540	109,979,005	189,949,500	79,386,641

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(e) *Loans and advances neither past due nor impaired*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired of single corporate customer can be assessed by reference to the five-category system adopted by the Group.

As at 31 December 2017

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
– Commercial loans	178,701,038	2,865,238	181,566,276
– Discounted bills	15,209,815	–	15,209,815
Subtotal	193,910,853	2,865,238	196,776,091
Personal loans and advances	111,103,479	21,399	111,124,878
Total	305,014,332	2,886,637	307,900,969

As at 31 December 2016

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
– Commercial loans	170,813,768	3,685,519	174,499,287
– Discounted bills	16,761,362	–	16,761,362
Subtotal	187,575,130	3,685,519	191,260,649
Personal loans and advances	80,037,796	7,741	80,045,537
Total	267,612,926	3,693,260	271,306,186

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(f) Loans and advances overdue but not impaired

Analysis of loans and advances overdue but not impaired by overdue day:

As at 31 December 2017

	Up to 30 days	30 to 60 days	60 to 90 days	over 90 days	Total
Corporate loans	443,096	1,168,762	138,393	1,112,943	2,863,194
Personal loans and advances	293,867	111,487	120,312	104,380	630,046
	736,963	1,280,249	258,705	1,217,323	3,493,240

As at 31 December 2016

	Up to 30 days	30 to 60 days	60 to 90 days	over 90 days	Total
Corporate loans	689,299	223,278	142,755	1,376,561	2,431,893
Personal loans and advances	263,987	95,891	118,280	187,105	665,263
	953,286	319,169	261,035	1,563,666	3,097,156

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 2017, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB4,012,645 thousand (31 December 2016: RMB3,898,193 thousand). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB1,355,400 thousand (31 December 2016: RMB665,477 thousand).

The 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 and estimated expenses to be incurred in the disposal process.

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(g) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	As at 31 December 2017	As at 31 December 2016
Corporate loans	2,681,323	2,270,290
Personal loans and advances	618,617	697,016
	3,299,940	2,967,306
Fair value of collateral		
Corporate loans	2,311,581	2,029,028
Personal loans and advances	558,101	629,750
	2,869,682	2,658,778

The fair value of collateral is estimated based on the latest external valuations available, considering the realisation experience of the current collateral and the market conditions.

(h) 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. As at 31 December 2017, the carrying value of the renegotiated loans held by the Group amounted to RMB795 million (31 December 2016: RMB831 million).

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(i) Overdue loans and advances by overdue day and collateral type

	As at 31 December 2017				Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	
Unsecured	83,178	123,653	76,477	–	283,308
Guaranteed	1,752,083	782,049	681,899	15	3,216,046
Collateralised	757,834	1,318,091	851,708	317,065	3,244,698
Pledged	44,380	98	4,650	–	49,128
	2,637,475	2,223,891	1,614,734	317,080	6,793,180

	As at 31 December 2016				Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	
Unsecured	145,177	86,216	33,881	–	265,274
Guaranteed	396,935	923,062	262,461	15	1,582,473
Collateralised	1,066,672	2,102,855	951,574	25,812	4,146,913
Pledged	399	69,325	78	–	69,802
	1,609,183	3,181,458	1,247,994	25,827	6,064,462

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.6 Debt securities

The table below presents an analysis of debt securities by external credit rating company:

As at 31 December 2017	Financial assets at fair value through profit or loss ^(a)	Available-for-sale ^(b)	Held-to-maturity ^(a)	Debt instruments classified as receivables ^(c)	Total
RMB securities					
AAA	360,188	14,187,373	31,552,317	–	46,099,878
AA- to AA+	48,377	4,238,828	658,756	–	4,945,961
A- to A+	109,393	268,789	1,014,456	–	1,392,638
Unrated ^(a)	2,177,141	124,914,967	27,902,872	215,928,674	370,923,654
Total	2,695,099	143,609,957	61,128,401	215,928,674	423,362,131
Allowance for impairment losses	–	(304,067)	–	(4,281,414)	(4,585,481)
Net balance	2,695,099	143,305,890	61,128,401	211,647,260	418,776,650

As at 31 December 2016	Financial assets at fair value through profit or loss ^(a)	Available-for-sale ^(b)	Held-to-maturity ^(a)	Debt instruments classified as receivables ^(c)	Total
RMB securities					
AAA	189,478	1,132,365	4,894,979	–	6,216,822
AA- to AA+	347,560	3,132,253	2,903,530	–	6,383,343
A- to A+	749,676	557,034	–	–	1,306,710
Unrated ^(a)	4,455,403	116,445,746	44,552,942	161,282,879	326,736,970
Total	5,742,117	121,267,398	52,351,451	161,282,879	340,643,845
Allowance for impairment losses	–	(892,508)	–	(1,611,771)	(2,504,279)
Net balance	5,742,117	120,374,890	52,351,451	159,671,108	338,139,566

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.6 Debt securities (Continued)

- (a) The unrated debt securities (held-for-trading and held-to-maturity) held by the Group mainly represent investments and trading securities issued by the Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies.
- (b) The unrated available-for-sale held by the Group mainly represent investments and trading securities issued by MOF, policy banks, other financial institutions, asset management schemes by securities firms or trust companies and other investment funds raised from issuing the principal-guaranteed WMPs. The principle and income of asset management schemes and other investment funds are mainly guaranteed by financial institutions or third party companies, or secured by collateral. The Bank sets credit risk limit to the counter party banks and third party companies to mitigate the risk associated therewith.
- (c) Debt instruments classified as receivables mainly include the principal-guaranteed WMPs issued by other banks and other fixed-income financial instruments.

49.1.7 Foreclosed collateral

	As at 31 December 2017	As at 31 December 2016
Property and land use rights	267,550	147,072
Others	132,352	2,600
Total	399,902	149,672
Allowance for impairment losses (Note 28)	(150,238)	(38)
Net balance	249,664	149,634

Foreclosed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Foreclosed property cannot be used for operating activities. Foreclosed property is classified in the consolidated statement of financial position within other assets.

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.8 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

As at 31 December 2017	Mainland			Total
	China	Hong Kong	Others	
Financial assets				
Balances with the central bank	91,065,465	–	–	91,065,465
Deposits with banks and other financial institutions	6,744,329	2,927,532	27,972	9,699,833
Placements with banks and other financial institutions	3,553,288	–	–	3,553,288
Financial assets at fair value through profit or loss	2,695,099	–	–	2,695,099
Derivative financial assets	67,479	–	–	67,479
Financial assets held under resale agreements	36,027,487	–	–	36,027,487
Loans and advances to customers	305,208,545	–	–	305,208,545
Investment securities				
– available-for-sale	143,305,890	–	–	143,305,890
Investment securities				
– held-to-maturity	61,128,401	–	–	61,128,401
Investment securities				
– debt instruments classified as receivables	211,647,260	–	–	211,647,260
Finance lease receivables	26,269,575	–	–	26,269,575
Other financial assets	7,496,686	–	–	7,496,686
	895,209,504	2,927,532	27,972	898,165,008
Off-balance sheet assets				
Bank acceptance	27,513,009	–	–	27,513,009
Letters of credit	7,860,919	–	–	7,860,919
Letters of guarantee	10,699,447	–	–	10,699,447
Loan commitments	1,732,384	–	–	1,732,384
Unused credit card lines	14,490,272	–	–	14,490,272
	62,296,031	–	–	62,296,031

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.8 Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

As at 31 December 2016	Mainland			Total
	China	Hong Kong	Others	
Financial assets				
Balances with the central bank	86,706,368	–	–	86,706,368
Deposits with banks and other financial institutions	4,483,089	6,219,424	258,085	10,960,598
Placements with banks and other financial institutions	19,319,720	–	–	19,319,720
Financial assets at fair value through profit or loss	5,742,117	–	–	5,742,117
Derivative financial assets	385,977	–	–	385,977
Financial assets held under resale agreements	516,183	–	–	516,183
Loans and advances to customers	269,336,141	–	–	269,336,141
Investment securities – available-for-sale	120,384,390	–	–	120,384,390
Investment securities – held-to-maturity	52,351,451	–	–	52,351,451
Investment securities – debt instruments classified as receivables	159,671,108	–	–	159,671,108
Finance lease receivables	18,199,109	–	–	18,199,109
Other financial assets	4,478,216	–	–	4,478,216
	741,573,869	6,219,424	258,085	748,051,378
Off-balance sheet assets				
Bank acceptance	39,097,490	–	–	39,097,490
Letters of credit	3,693,397	–	–	3,693,397
Letters of guarantee	9,634,980	–	–	9,634,980
Loan commitments	1,694,421	–	–	1,694,421
Unused credit card lines	8,823,994	–	–	8,823,994
	62,944,282	–	–	62,944,282

The Group's counterparties are mainly concentrated in Mainland China.

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk

49.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Groups' market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

The market risks arising from trading and non-trading activities are monitored by the Bank's Risk Management Department. Market risks arising from non-trading activities at the Bank level are monitored and controlled by Financial Planning Department while market risks resulting from trading activities at Bank level and non-trading activities of Financial Market Department are monitored and controlled by Financial Market Department. The Group also establishes daily, monthly and quarterly reporting mechanism in relation to market risk in which Financial Planning Department and Financial Market Department monitor and analyse market risk changes and quota execution before reporting to Risk Management Department and management on a regular basis.

49.2.2 Market risk measurement techniques

The Group mainly measures and controls market risk by conducting sensitivity analysis, foreign exchange exposure analysis, gap analysis, duration analysis, stress testing and the VaR (value at risk). The Group establishes strict authorisation and exposure limits based on its overall ability to afford market risk, the types of products and the Group's business strategy. The Group sets different exposure limits and takes different quantitative measurements to manage different types of market risk of trading book and banking book. The Group also improves its funding risk management system, adjusts the related risk parameter and refines the risk measurement model in accordance with regulatory requirements.

49.2.3 Interest rate risk

The interest rate risk refers to the risk the adverse fluctuation of which has a negative impact on the Group's financial performance. The Group's interest rate risk mainly arises from the mismatches between repricing dates of both on- and off-balance sheet assets and liabilities. Mismatches between repricing dates or contractual maturities may lead to the impact resulting from the fluctuation of the current interest rate on the net interest income. The Group is primarily exposed to the interest rate risk through its lending, deposits and funding activities.

The Group performs business in Mainland China in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest-bearing loans and deposits in the same direction but not in parallel.

The PBOC established RMB benchmark interest rates whereby financial institutions are in a position to price their loans and deposits based on commercial and market factors. Meanwhile, the discount rate for RMB bills is market-oriented as well.

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.3 Interest rate risk (Continued)

The table below summarises the Group's exposure to the interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

As at 31 December 2017	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
Assets							
Cash and balances with the central bank	91,065,465	-	-	-	-	1,292,408	92,357,873
Deposits with banks and other financial institutions	7,494,144	1,968,036	237,653	-	-	-	9,699,833
Placements with banks and other financial institutions	-	2,053,664	1,499,624	-	-	-	3,553,288
Financial assets at fair value through profit or loss	319,505	793,586	521,511	1,050,354	10,143	-	2,695,099
Derivatives financial assets	-	-	-	-	-	67,479	67,479
Financial assets held under resale agreements	35,927,634	-	99,853	-	-	-	36,027,487
Loans and advances to customers	88,510,478	24,416,683	119,031,333	57,989,624	15,260,427	-	305,208,545
Investment securities							
- available-for-sale	13,017,581	25,290,707	38,123,956	50,879,415	15,984,731	9,500	143,305,890
- held-to-maturity	799,977	630,134	5,047,080	32,864,828	21,786,382	-	61,128,401
- debt instruments classified as receivables	17,969,734	18,292,780	42,282,027	123,206,219	9,896,500	-	211,647,260
Finance lease receivables	21,175,677	1,234,723	1,910,210	1,948,965	-	-	26,269,575
Other financial assets	-	-	-	-	-	7,496,686	7,496,686
Total assets	276,280,195	74,680,313	208,753,247	267,939,405	62,938,183	8,866,073	899,457,416
Liabilities							
Borrowing from the central bank	-	-	(1,500,000)	-	-	-	(1,500,000)
Deposits from banks and other financial institutions	(25,088,857)	(38,018,614)	(16,303,653)	(16,334,112)	(69,363)	-	(95,814,599)
Placements from banks and other financial institutions	-	(10,888,078)	(14,285,000)	(254,834)	-	-	(25,427,912)
Derivatives financial liabilities	-	-	-	-	-	(747,449)	(747,449)
Financial assets sold under repurchase agreements	(57,862,679)	(240,000)	(7,327,996)	(9,500,000)	-	-	(74,930,675)
Deposits from customers	(316,823,968)	(31,730,703)	(78,647,930)	(85,593,538)	(12,043)	-	(512,808,182)
Debt securities issued	(26,148,833)	(14,414,861)	(50,335,307)	(12,298,553)	(11,982,803)	-	(115,180,357)
Other financial liabilities	-	-	-	-	-	(16,480,407)	(16,480,407)
Total liabilities	(425,924,337)	(95,292,256)	(168,399,886)	(123,981,037)	(12,064,209)	(17,227,856)	(842,889,581)
Total interest rate sensitivity gap	(149,644,142)	(20,611,943)	40,353,361	143,958,368	50,873,974	(8,361,783)	56,567,835

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.3 Interest rate risk (Continued)

As at 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
Assets							
Cash and balances with the central bank	87,776,866	-	-	-	-	282,494	88,059,360
Deposits with banks and other financial institutions	10,257,598	569,000	134,000	-	-	-	10,960,598
Placements with banks and other financial institutions	2,463,126	6,736,112	10,120,482	-	-	-	19,319,720
Financial assets at fair value through profit or loss	389,343	854,816	2,497,882	1,439,612	560,464	-	5,742,117
Derivatives financial assets	-	-	-	-	-	385,977	385,977
Financial assets held under resale agreements	516,183	-	-	-	-	-	516,183
Loans and advances to customers	79,171,892	21,286,017	104,798,400	52,333,559	11,746,273	-	269,336,141
Investment securities							
- available-for-sale	9,254,338	31,531,954	41,959,601	31,990,284	5,638,713	9,500	120,384,390
- held-to-maturity	709,770	849,857	3,607,946	26,162,922	21,020,956	-	52,351,451
- debt instruments classified as receivables	6,994,974	16,281,907	26,379,251	104,547,715	5,467,261	-	159,671,108
Finance lease receivables	295,295	804,655	3,579,842	13,389,889	129,428	-	18,199,109
Other financial assets	-	-	-	-	-	4,478,216	4,478,216
Total assets	197,829,385	78,914,318	193,077,404	229,863,981	44,563,095	5,156,187	749,404,370
Liabilities							
Borrowing from the central bank	-	-	(5,000)	-	-	-	(5,000)
Deposits from banks and other financial institutions	(31,312,433)	(21,396,493)	(20,458,287)	(10,049,089)	-	-	(83,216,302)
Placements from banks and other financial institutions	(2,605,865)	(4,587,480)	(8,158,740)	-	-	-	(15,352,085)
Derivatives financial liabilities	-	-	-	-	-	(4,643)	(4,643)
Financial assets sold under repurchase agreements	(29,062,211)	(690,767)	(2,866,264)	-	-	-	(32,619,242)
Deposits from customers	(276,278,855)	(39,899,826)	(76,039,177)	(68,775,311)	(1,021,240)	-	(462,014,409)
Debt securities issued	(13,530,000)	(7,120,000)	(37,270,000)	(21,671,198)	(11,914,052)	-	(91,505,250)
Other financial liabilities	-	-	-	-	-	(12,573,802)	(12,573,802)
Total liabilities	(352,789,364)	(73,694,566)	(144,797,468)	(100,495,598)	(12,935,292)	(12,578,445)	(697,290,733)
Total interest rate sensitivity gap	(154,959,979)	5,219,752	48,279,936	129,368,383	31,627,803	(7,422,258)	52,113,637

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.3 Interest rate risk (Continued)

The Group mainly narrows its interest rate sensitivity gap between assets and liabilities through shorter durations for investments and resetting loan price.

The currency for the Group's majority of interest-bearing assets and liabilities is RMB. The potential impact on net interest income as at the end of the reporting period stated below with 100 bps changes along the yield curve is as follows:

	Estimated changes in net interest income	
	As at 31 December 2017	As at 31 December 2016
100 bps up along the yield curve	1,164,430	989,393
100 bps down along the yield curve	(1,164,430)	(989,393)

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as available-for-sale financial assets held, whose fair value changes are recorded as an element of other comprehensive income. The potential impact is as follows:

	2017	2016
100 bps up	(1,406,879)	(977,187)
100 bps down	1,493,916	1,030,730

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.3 Interest rate risk (Continued)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- Demand deposits will not be re-priced;
- All assets and liabilities are re-priced in the middle of relevant periods;
- An analysis is based on static gap at the end of the reporting period, regardless of any subsequent changes;
- No consideration of the impact on customers' behaviour resulting from interest rate changes;
- No consideration of the impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

49.2.4 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for control over currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimise the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorisation management of foreign currency exposure is categorised by business type and traders' limits of authority.

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.4 Currency risk (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorised by the original currency:

	RMB	USD	EUR	Others	Total
As at 31 December 2017					
Assets					
Cash and balances with the central bank	92,172,406	184,043	163	1,261	92,357,873
Deposits with banks and other financial institutions	6,536,809	2,997,571	83,198	82,255	9,699,833
Placements with banks and other financial institutions	2,050,422	1,502,866	–	–	3,553,288
Financial assets at fair value through profit or loss	2,695,099	–	–	–	2,695,099
Derivative financial assets	67,479	–	–	–	67,479
Financial assets held under resale agreements	36,027,487	–	–	–	36,027,487
Loans and advances to customers	304,227,694	968,354	12,497	–	305,208,545
Investment securities					
– available-for-sale	140,038,790	3,267,100	–	–	143,305,890
– held-to-maturity	61,128,401	–	–	–	61,128,401
– debt instruments classified as receivables	211,647,260	–	–	–	211,647,260
Finance lease receivables	26,269,575	–	–	–	26,269,575
Other financial assets	7,382,900	112,635	–	1,151	7,496,686
Total assets	890,244,322	9,032,569	95,858	84,667	899,457,416
Liabilities					
Borrowing from the central bank	(1,500,000)	–	–	–	(1,500,000)
Deposits from banks and other financial institutions	(81,659,916)	(14,154,547)	–	(136)	(95,814,599)
Placements from banks and other financial institutions	(24,308,732)	(1,119,180)	–	–	(25,427,912)
Derivative financial liabilities	(747,449)	–	–	–	(747,449)
Financial assets sold under repurchase agreements	(74,930,675)	–	–	–	(74,930,675)
Deposits from customers	(509,382,964)	(3,351,566)	(18,275)	(55,377)	(512,808,182)
Debt securities issued	(115,180,357)	–	–	–	(115,180,357)
Other financial liabilities	(16,197,101)	(283,297)	(2)	(7)	(16,480,407)
Total liabilities	(823,907,194)	(18,908,590)	(18,277)	(55,520)	(842,889,581)
Net on-balance sheet financial position	66,337,128	(9,876,021)	77,581	29,147	56,567,835
Financial guarantees and credit commitments	48,372,983	6,075,420	4,511,860	3,335,768	62,296,031

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2016					
Assets					
Cash and balances with the central bank	87,776,265	281,077	63	1,955	88,059,360
Deposits with banks and other financial institutions	4,296,978	6,539,190	49,016	75,414	10,960,598
Placements with banks and other financial institutions	17,363,486	1,956,234	–	–	19,319,720
Financial assets at fair value through profit or loss	5,742,117	–	–	–	5,742,117
Derivative financial assets	385,977	–	–	–	385,977
Financial assets held under resale agreements	516,183	–	–	–	516,183
Loans and advances to customers	267,796,209	1,493,060	42,484	4,388	269,336,141
Investment securities					
– available-for-sale	120,384,390	–	–	–	120,384,390
– held-to-maturity	52,351,451	–	–	–	52,351,451
– debt instruments classified as receivables	159,671,108	–	–	–	159,671,108
Finance lease receivables	18,199,109	–	–	–	18,199,109
Other financial assets	4,472,149	5,938	129	–	4,478,216
Total assets	738,955,422	10,275,499	91,692	81,757	749,404,370
Liabilities					
Borrowing from the central bank	(5,000)	–	–	–	(5,000)
Deposits from banks and other financial institutions	(76,693,201)	(6,523,101)	–	–	(83,216,302)
Placements from banks and other financial institutions	(13,930,000)	(1,422,085)	–	–	(15,352,085)
Derivative financial liabilities	(4,643)	–	–	–	(4,643)
Financial assets sold under repurchase agreements	(32,619,242)	–	–	–	(32,619,242)
Deposits from customers	(457,954,269)	(4,006,522)	(15,259)	(38,359)	(462,014,409)
Debt securities issued	(91,505,250)	–	–	–	(91,505,250)
Other financial liabilities	(12,506,730)	(67,057)	(1)	(14)	(12,573,802)
Total liabilities	(685,218,335)	(12,018,765)	(15,260)	(38,373)	(697,290,733)
Net on-balance sheet financial position					
	53,737,087	(1,743,266)	76,432	43,384	52,113,637
Financial guarantees and credit commitments	53,766,050	8,755,353	330,184	92,695	62,944,282

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.4 Currency risk (Continued)

The Group's foreign currency exposure is not material. The major foreign currency exposure is with USD and EUR. The potential impact on net profits resulted from foreign currency translation gain or loss with 1% fluctuation of foreign currency against RMB is as follows:

	Estimated change in net profit/(loss)	
	As at 31 December 2017	As at 31 December 2016
1% of appreciation of FX against RMB	(73,270)	(12,176)
1% of depreciation of FX against RMB	73,270	12,176

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index, regardless of:

- An analysis is based on static gap at the end of the reporting period, regardless of any subsequent changes;
- No consideration of the impact on the customers' behaviour resulted from interest rate changes;
- No consideration of the impact on market price resulted from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

49.3 Liquidity risk

49.3.1 Overview

Keeping a match between the maturity dates of assets and liabilities and maintaining an effective control over mismatch is of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are both key factors when evaluating its' exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan drawdowns, guarantees and other calls on cash settled derivatives. According to previous experience, a large portion of matured deposits is not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.2 Cash flows of non-derivatives

The table below presents the cash flows receivable and payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

As at 31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Borrowing from the central bank	-	-	(1,546,521)	-	-	(1,546,521)
Deposits from banks and other financial institutions	(25,141,460)	(38,401,833)	(19,218,753)	(16,334,112)	(69,363)	(99,165,521)
Placements from banks and other financial institutions	-	(10,947,679)	(14,461,519)	(262,357)	-	(25,671,555)
Financial assets sold under repurchase agreements	(57,893,652)	(240,609)	(7,504,363)	(9,664,844)	-	(75,303,468)
Deposits from customers	(316,868,083)	(31,878,893)	(79,797,930)	(91,223,819)	(12,043)	(519,780,768)
Debt securities in issued	(26,210,000)	(14,609,000)	(52,737,452)	(15,509,800)	(14,173,600)	(123,239,852)
Other financial liabilities	(7,209,119)	-	-	-	-	(7,209,119)
Total liabilities(contractual maturity)	(433,322,314)	(96,078,014)	(175,266,538)	(132,994,932)	(14,255,006)	(851,916,804)
Assets						
Cash and balances with the central bank	92,357,873	-	-	-	-	92,357,873
Deposits with banks and other financial institutions	7,496,317	1,978,620	240,555	-	-	9,715,492
Placements with banks and other financial institutions	-	2,074,553	1,546,275	-	-	3,620,828
Financial assets at fair value through profit or loss	326,930	826,810	568,821	1,176,116	16,388	2,915,065
Financial assets held under resale agreements	35,958,105	-	99,853	-	-	36,057,958
Loans and advances to customers	19,730,369	25,978,769	90,933,001	44,680,007	129,702,901	311,025,047
Investment securities						
- available-for-sale	13,377,702	26,527,154	40,645,996	61,027,109	17,916,524	159,494,485
- held-to-maturity	905,522	1,230,009	6,587,665	39,517,438	23,417,857	71,658,491
- debt instruments classified as receivables	19,040,511	20,958,130	48,730,771	131,056,492	11,667,171	231,453,075
Finance lease receivables	3,257,844	1,882,652	4,639,552	19,491,943	255,270	29,527,261
Other financial assets	1,589,271	-	-	-	-	1,589,271
Financial assets held for managing liquidity risk (contractual maturity)	194,040,444	81,456,697	193,992,489	296,949,105	182,976,111	949,414,846
Net liquidity	(239,281,870)	(14,621,317)	18,725,951	163,954,173	168,721,105	97,498,042

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.2 Cash flows of non-derivatives (Continued)

As at 31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Borrowing from the central bank	-	-	(5,088)	-	-	(5,088)
Deposits from banks and other financial institutions	(31,312,433)	(22,385,065)	(22,405,709)	(11,869,036)	-	(87,972,243)
Placements from banks and other financial institutions	(2,608,439)	(4,612,863)	(8,327,432)	-	-	(15,548,734)
Financial assets sold under repurchase agreements	(29,084,073)	(695,346)	(2,904,875)	-	-	(32,684,294)
Deposits from customers	(276,296,244)	(40,048,642)	(77,101,838)	(76,888,458)	(1,226,481)	(471,561,663)
Debt securities in issued	(13,530,000)	(7,481,000)	(38,270,500)	(26,244,300)	(14,810,800)	(100,336,600)
Other financial liabilities	(5,479,145)	-	-	-	-	(5,479,145)
Total liabilities(contractual maturity)	(358,310,334)	(75,222,916)	(149,015,442)	(115,001,794)	(16,037,281)	(713,587,767)
Assets						
Cash and balances with the central bank	88,059,360	-	-	-	-	88,059,360
Deposits with banks and other financial institutions	9,950,202	898,266	136,554	-	-	10,985,022
Placements with banks and other financial institutions	2,466,462	6,789,515	10,294,279	-	-	19,550,256
Financial assets at fair value through profit or loss	398,965	887,998	2,645,860	1,722,849	634,167	6,289,839
Financial assets held under resale agreements	519,184	-	-	-	-	519,184
Loans and advances to customers	17,988,316	24,905,003	115,962,242	84,551,899	66,320,216	309,727,676
Investment securities						
- available-for-sale	9,306,831	31,962,665	43,992,135	35,953,454	6,005,558	127,220,643
- held-to-maturity	824,310	1,169,199	5,063,416	31,692,820	22,700,761	61,450,506
- debt instruments classified as receivables	11,283,871	26,147,954	31,959,909	126,158,042	7,025,600	202,575,376
Finance lease receivables	300,569	818,597	3,642,289	13,622,637	131,667	18,515,759
Other financial assets	781,587	-	-	-	-	781,587
Financial assets held for managing						
liquidity risk (contractual maturity)	141,879,657	93,579,197	213,696,684	293,701,701	102,817,969	845,675,208
Net liquidity	(216,430,677)	18,356,281	64,681,242	178,699,907	86,780,688	132,087,441

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.3 Derivative financial instruments cash flows

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forward contracts. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet of 31 December 2017 and 31 December 2016 to the contractual maturity date. The figures disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2017	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Foreign exchange derivatives						
– Outflow	(349,979)	(6,300,940)	(8,971,814)	–	–	(15,622,733)
– Inflow	327,541	5,891,017	8,594,848	–	–	14,813,406
	(22,438)	(409,923)	(376,966)	–	–	(809,327)

As at 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Foreign exchange derivatives						
– Outflow	(27,495)	(3,485,733)	(4,554,428)	–	–	(8,067,656)
– Inflow	27,622	3,697,189	4,713,058	–	–	8,437,869
	127	211,456	158,630	–	–	370,213

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.4 Maturity analysis

The table below analyses the Group's net assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

As at 31 December 2017	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	92,357,873	-	-	-	-	-	-	-	92,357,873
Deposits with banks and other financial institutions	1,387,299	6,106,844	1,968,036	237,654	-	-	-	-	9,699,833
Placements with banks and other financial institutions	-	-	2,053,664	1,499,624	-	-	-	-	3,553,288
Financial assets at fair value through profit or loss	-	319,505	793,586	521,511	1,050,354	10,143	-	-	2,695,099
Derivative financial assets	-	6	3,255	55,880	8,338	-	-	-	67,479
Financial assets held under resale agreements	-	35,927,634	-	99,853	-	-	-	-	36,027,487
Loans and advances to customers	-	19,022,306	23,967,970	89,447,903	43,642,458	126,163,830	2,964,078	-	305,208,545
Investment securities									
- available-for-sale	-	13,547,671	20,703,547	38,916,539	55,217,409	14,804,721	106,503	9,500	143,305,890
- held-to-maturity	-	799,977	630,134	5,047,080	32,864,828	21,786,382	-	-	61,128,401
- debt instruments classified as receivables	-	34,310,661	19,159,118	33,673,458	113,386,423	10,936,600	181,000	-	211,647,260
Finance lease receivables	-	21,175,677	1,234,723	1,910,210	1,948,965	-	-	-	26,269,575
Other financial assets	395,148	1,912,433	2,017,787	1,512,511	1,079,355	565,033	14,419	-	7,496,686
Total assets	94,140,320	133,122,714	72,531,820	172,922,223	249,198,130	174,266,709	3,266,000	9,500	899,457,416
Borrowing from the central bank	-	-	-	(1,500,000)	-	-	-	-	(1,500,000)
Deposits from banks and other financial institutions	(3,368,919)	(21,719,938)	(38,018,614)	(16,303,653)	(16,334,112)	(69,363)	-	-	(95,814,599)
Placements from banks and other financial institutions	-	-	(10,913,078)	(14,260,000)	(254,834)	-	-	-	(25,427,912)
Derivative financial liabilities	-	(22,171)	(397,176)	(325,870)	(2,232)	-	-	-	(747,449)
Financial assets sold under repurchase agreements	-	(57,862,679)	(240,000)	(7,327,996)	(9,500,000)	-	-	-	(74,930,675)
Deposits from customers	(290,774,260)	(26,049,708)	(31,730,703)	(78,647,930)	(85,593,538)	(12,043)	-	-	(512,808,182)
Debt securities in issued	-	(26,148,833)	(14,414,861)	(50,335,307)	(12,298,553)	(11,982,803)	-	-	(115,180,357)
Other financial liabilities	(583,126)	(8,039,988)	(964,601)	(3,863,205)	(2,430,115)	(599,372)	-	-	(16,480,407)
Total liabilities	(294,726,305)	(139,843,317)	(96,679,033)	(172,563,961)	(126,413,384)	(12,663,581)	-	-	(842,889,581)
Net liquidity gap	(200,585,985)	(6,720,603)	(24,147,213)	358,262	122,784,746	161,603,128	3,266,000	9,500	56,567,835

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.4 Maturity analysis (Continued)

As at 31 December 2016	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	88,059,360	-	-	-	-	-	-	-	88,059,360
Deposits with banks and other financial institutions	7,872,098	2,385,500	569,000	134,000	-	-	-	-	10,960,598
Placements with banks and other financial institutions	-	2,463,126	6,736,112	10,120,482	-	-	-	-	19,319,720
Financial assets at fair value through profit or loss	-	389,343	854,816	2,497,883	1,439,611	560,464	-	-	5,742,117
Derivative financial assets	-	685	201,856	152,248	31,188	-	-	-	385,977
Financial assets held under resale agreements	-	516,183	-	-	-	-	-	-	516,183
Loans and advances to customers	-	17,136,435	21,329,001	104,787,634	56,349,968	67,305,575	2,427,528	-	269,336,141
Investment securities									
- available-for-sale	-	9,254,338	31,531,954	41,959,601	31,990,284	5,638,713	-	9,500	120,384,390
- held-to-maturity	-	709,770	849,857	3,607,946	26,162,921	21,020,957	-	-	52,351,451
- debt instruments classified as receivables	-	6,994,974	16,281,907	26,349,251	104,547,715	5,467,261	30,000	-	159,671,108
Finance lease receivables	-	295,295	804,655	3,579,842	13,389,889	129,428	-	-	18,199,109
Other financial assets	298,408	586,261	865,480	1,738,272	895,796	-	93,999	-	4,478,216
Total assets	96,229,866	40,731,910	80,024,638	194,927,159	234,807,372	100,122,398	2,551,527	9,500	749,404,370
Borrowing from the central bank	-	-	-	(5,000)	-	-	-	-	(5,000)
Deposits from banks and other financial institutions	(21,322,095)	(9,990,339)	(21,396,492)	(20,458,287)	(10,049,089)	-	-	-	(83,216,302)
Placements from banks and other financial institutions	-	(2,605,865)	(4,587,480)	(8,158,740)	-	-	-	-	(15,352,085)
Derivative financial liabilities	-	(569)	(1,260)	(977)	(1,837)	-	-	-	(4,643)
Financial assets sold under repurchase agreements	-	(29,062,211)	(690,767)	(2,866,264)	-	-	-	-	(32,619,242)
Deposits from customers	(250,548,858)	(25,729,997)	(39,899,826)	(76,039,177)	(68,775,311)	(1,021,240)	-	-	(462,014,409)
Debt securities issued	-	(13,530,000)	(7,120,000)	(37,270,000)	(21,605,880)	(11,979,370)	-	-	(91,505,250)
Other financial liabilities	(5,853,727)	(418,560)	(1,408,000)	(2,076,515)	(2,479,048)	(337,952)	-	-	(12,573,802)
Total liabilities	(277,724,680)	(81,337,541)	(75,103,825)	(146,874,960)	(102,911,165)	(13,338,562)	-	-	(697,290,733)
Net liquidity gap	(181,494,814)	(40,605,631)	4,920,813	48,052,199	131,896,207	86,783,836	2,551,527	9,500	52,113,637

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.5 Off-balance sheet items

The Group provides guarantees and letters of credit to customers based on their credit ratings and amount of cash collateral. Usually, customers will not withdraw the amount committed by the Group in the guarantees or letters of credit in full, therefore, funds required for guarantees and letters of credit are not so much as required for other commitments of the Group. Meanwhile, the Group may be discharged of its obligations due to overdue or termination of the commitments. As a result, the contractual amount for credit commitment cannot represent the actual funds required.

As at 31 December 2017	Within 1 year	1-5 years	Over 5 years	Total
Bank acceptance	27,513,009	–	–	27,513,009
Letters of credit	7,408,942	451,977	–	7,860,919
Letters of guarantee	9,024,411	1,228,222	446,814	10,699,447
Loan commitments	1,702,384	30,000	–	1,732,384
Unused credit card lines	146,008	14,343,019	1,245	14,490,272
	45,794,754	16,053,218	448,059	62,296,031

As at 31 December 2016	Within 1 year	1-5 years	Over 5 years	Total
Bank acceptance	39,095,890	1,600	–	39,097,490
Letters of credit	3,693,397	–	–	3,693,397
Letters of guarantee	7,489,486	1,671,705	473,789	9,634,980
Loan commitments	1,664,421	30,000	–	1,694,421
Unused credit card lines	1,439,077	6,932,247	452,670	8,823,994
	53,382,271	8,635,552	926,459	62,944,282

49.4 Fair value of financial assets and liabilities

(a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt.

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

(a) Fair value hierarchy (Continued)

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Thomson Reuters, Bloomberg and China Bond.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt investments with significant unobservable inputs.

(b) Financial instruments not measured at fair value

Fair value estimates are made in accordance with relevant market information and information related to various financial instruments at a particular point in time. The fair value of all kinds of financial instruments is based on the following methods and assumptions:

- (i) *Balances with the central bank, deposits and placements with banks, financial assets held under resale agreements, deposits and placements from banks, financial assets sold under repurchase agreements, other assets and other liabilities*

Since these financial instruments are in short-term or under floating interest rate linked to the market interest rate, their carrying value approximate to the fair value.

- (ii) *Loans and advances to customers*

Since most loans and advances to customers are repriced at least annually according to market interest rate, their carrying value approximate to the fair value.

- (iii) *Deposits from customers*

The fair value of a checking account, a savings account and a short-term money market deposit shall be the amount currently payable to customers. The fair value of a time deposit is calculated based on the discounted cash flow method, and the discount rate is the current rate of a time deposit of which the term is similar to the remaining term of the time deposit being valued. At the end of the reporting period, the carrying value of deposits from customers approximate to the fair value.

- (iv) *Finance lease receivables*

The balance of finance lease receivables is calculated based on effective interest rate method. Since the actual interest rate of a financial leasing is linked and timely adjusted to the interest rates that PBOC stipulates, the carrying value approximate to fair value.

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

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

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet, including investment securities held-to-maturity, investment securities loans and receivables and debt securities in issued.

	As at 31 December 2017				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Investment securities					
– Held-to-maturity	61,128,401	–	59,264,266	–	59,264,266
Investment securities					
– Debt instruments classified as receivables	211,647,260	–	211,538,809	–	211,538,809
Financial Liabilities					
Debt securities issued	(115,180,357)	–	(113,167,271)	–	(113,167,271)

	As at 31 December 2016				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Investment securities					
– Held-to-maturity	52,351,451	–	52,695,493	–	52,695,493
Investment securities					
– Debt instruments classified as receivables	159,671,108	–	159,655,832	–	159,655,832
Financial Liabilities					
Debt securities issued	(91,505,250)	–	(90,444,884)	–	(90,444,884)

(i) Debt instruments classified as receivables and held-to-maturity investments

Investment securities classified as held-to-maturity whose fair value is based on quoted market prices are included in level 1. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3.

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

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

(ii) Debt securities in issued

If the fair value is based on quoted market prices, the fair value measurement will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to fair value are observable, it is included in level 2.

The other financial instruments not measured at fair value in the consolidated financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. Due to their short duration or the floating rate which is mark to market, the difference between carrying value and fair value of these financial assets is not significant.

(c) Financial instruments measured at fair value

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	1,761,885	–	1,761,885
– Interbank certificates of deposit	–	933,214	–	933,214
Derivative financial assets	–	67,479	–	67,479
Available-for-sale				
– Debt securities	–	57,067,186	–	57,067,186
– Interbank certificates of deposit	–	14,117,912	–	14,117,912
– Equity securities	–	9,500	–	9,500
– Asset management schemes by securities firms or trust companies	–	62,111,292	–	62,111,292
– WMPs	–	10,000,000	–	10,000,000
Total assets	–	146,068,468	–	146,068,468
Derivative financial liabilities	–	(747,449)	–	(747,449)
Total liabilities	–	(747,449)	–	(747,449)

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

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

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	3,249,676	–	3,249,676
– Interbank certificates of deposit	–	2,492,441	–	2,492,441
Derivative financial assets	–	385,977	–	385,977
Available-for-sale				
– Debt securities	–	32,548,360	–	32,548,360
– Interbank certificates of deposit	–	14,605,375	–	14,605,375
– Equity securities	–	9,500	–	9,500
– Asset management schemes by securities firms or trust companies	–	59,721,155	–	59,721,155
– WMPs	–	13,500,000	–	13,500,000
Total assets	–	126,512,484	–	126,512,484
Derivative financial liabilities	–	(4,643)	–	(4,643)
Total liabilities	–	(4,643)	–	(4,643)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

Financial assets held for trading, available-for-sale financial assets and derivative financial instruments are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, the fair values will be estimated using the discounted cash flow or pricing models. For debt securities, the fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management also aims to stimulate expansion of capital scale and to improve risk management.

The Group prudently set the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, like limit management to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

From 1 January 2013 onward, the Group started to implement "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC on 7 June 2012.

The table below summarises the Capital Adequacy Ratios of the Group as at 31 December 2017:

		As at 31 December 2017	As at 31 December 2016
Common Equity Tier-one Capital Adequacy Ratio	(a)	8.48%	8.79%
Tier-one Capital Adequacy Ratio	(a)	9.46%	9.94%
Capital Adequacy Ratio	(a)	12.19%	12.99%
Common Equity Tier-one Capital	(b)	52,795,964	46,637,740
Common shares		11,049,819	11,049,819
Capital reserve		5,881,045	6,630,294
Surplus reserve and general reserve		15,675,829	12,744,612
Undistributed profits		19,106,524	15,456,586
Eligible portion of minority interests		1,082,747	756,429
Deductible Items from Common Equity Tier one Capital	(c)	(164,015)	(116,938)
Net Common Equity Tier-one Capital		52,631,949	46,520,802
Additional Tier-one Capital	(d)	6,134,456	6,085,614
Net Tier-one Capital		58,766,405	52,606,416
Tier-two capital	(e)	16,904,817	16,126,976
Tier 2 capital instruments issued and related premium		10,000,000	10,382,615
Excess loan loss provisions		6,616,084	5,550,134
Eligible portion of minority interests		288,733	194,227
Net Capital		75,671,222	68,733,392
Risk-weighted Assets	(f)	620,978,790	529,232,054

Notes to the Consolidated Financial Statements

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

49 FINANCIAL RISK MANAGEMENT (Continued)

49.5 Capital management (Continued)

Pursuant to the Capital Rules for Commercial Banks (Provisional):

- (a) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Institutions and affiliated financial subsidiaries specified in the Regulation. The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.
- (b) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings and, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation).
- (c) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.
- (d) The Group's Additional Tier-one Capital includes preferred shares and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).
- (e) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).
- (f) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

49.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the consolidated financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the consolidated financial statements either.

	As at 31 December 2017	As at 31 December 2016
Entrusted loans	126,523,602	122,015,997
Entrusted WMPs	86,306,980	71,448,851

Notes to the Consolidated Financial Statements

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

50 SUBSEQUENT EVENT

Profit distribution:

In accordance with the resolution of the thirty-fifth meeting of the third session of the Board of Directors held on 23 March 2018, the profit distribution plan of the Bank for the year ended 31 Dec 2017 (subject to approval by the shareholders' meeting) is as follows:

- (i) An appropriation of 10% of profit for the year 2017 amounting to RMB742.36 million to the statutory surplus reserve;
- (ii) An appropriation of 10% of profit for the year 2017 amounting to RMB742.36 million to the discretionary surplus reserve;
- (iii) An appropriation of RMB1,243.53 million to the general reserve;
- (iv) Cash dividends of RMB0.25 per 10 shares (RMB276.25 million in total) and share dividends of 1 share per 10 shares (RMB1,104.98 million in total). The total amount of dividends distribution was RMB1,381.23 million.

As of the date of this report, the Group has no significant subsequent events except for the events stated above.

Appendix I – Unaudited Supplementary Financial Information

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

According to Hong Kong Listing Rules and disclosure requirements of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December 2017	As at 31 December 2016
RMB current assets to RMB current liabilities	44.29%	39.00%
Foreign currency current assets to foreign currency current liabilities	71.93%	174.33%

2 CURRENCY CONCENTRATIONS

	USD	EUR	Other	Total
As at 31 December 2017				
Spot assets	9,032,569	95,858	84,667	9,213,094
Spot liabilities	(18,908,590)	(18,277)	(55,520)	(18,982,387)
Forward purchases	14,793,997	–	–	14,793,997
Forward sales	(19,134)	–	–	(19,134)
Net long/(short) position	4,898,842	77,581	29,147	5,005,570
As at 31 December 2016				
Spot assets	10,275,499	91,692	81,757	10,448,948
Spot liabilities	(12,018,765)	(15,260)	(38,373)	(12,072,398)
Forward purchases	8,335,835	–	–	8,335,835
Forward sales	(78,682)	–	–	(78,682)
Net long/(short) position	6,513,887	76,432	43,384	6,633,703

Appendix I – Unaudited Supplementary Financial Information

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

3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Non-bank private institutions	Total
As at 31 December 2017			
Asia Pacific excluding Mainland China	4,769,827	980,851	5,750,678
– Hong Kong	2,927,532	–	2,927,532
Europe	6,819	–	6,819
North and South America	246,468	–	246,468
Oceania	934	–	934
Subtotal	7,951,580	980,851	8,932,431
As at 31 December 2016			
Asia Pacific excluding Mainland China	8,646,904	1,539,932	10,186,836
– Hong Kong	6,129,424	–	6,129,424
Europe	6,178	–	6,178
North and South America	254,724	–	254,724
Subtotal	8,907,806	1,539,932	10,447,738

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS

4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 31 December 2017	As at 31 December 2016
Total loans and advances to customers which have been		
overdue for within 3 months	2,637,474	1,609,183
between 3 to 6 months	1,249,335	1,444,741
between 6 to 12 months	974,557	1,736,717
over 12 months	1,931,814	1,273,821
	6,793,180	6,064,462
Percentage		
within 3 months	38.83%	26.53%
between 3 to 6 months	18.39%	23.82%
between 6 to 12 months	14.35%	28.65%
over 12 months	28.43%	21.00%
	100.00%	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Anhui Province	Jiangsu Province	Total
As at 31 December 2017			
Overdue loans and advances to customers	5,154,914	1,638,266	6,793,180
Individually assessed	(868,767)	(152,221)	(1,020,988)
Collectively assessed	(1,502,439)	(455,147)	(1,957,586)
As at 31 December 2016			
Overdue loans and advances to customers	5,612,650	451,812	6,064,462
Individually assessed	(427,742)	(148,350)	(576,092)
Collectively assessed	(1,001,820)	(156,288)	(1,158,108)

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.1 Overdue loans and advances to customers (Continued)

Fair value of collaterals against overdue loans and advances to customers:

	As at 31 December 2017	As at 31 December 2016
Fair value of collaterals		
– Corporate loans	4,857,996	4,799,884
– Personal loans and advances	1,400,543	1,294,957
	6,258,539	6,094,841

4.2 Identified impaired loans and advances

	Anhui Province	Jiangsu Province	Total
As at 31 December 2017			
Identified impaired loans and advances for which allowance is	3,062,737	237,202	3,299,939
Individually assessed	(588,601)	(93,246)	(681,847)
Collectively assessed	(922,565)	(63,027)	(985,592)
As at 31 December 2016			
Identified impaired loans and advances for which allowance is	2,554,400	412,906	2,967,306
Individually assessed	(588,601)	(93,246)	(681,847)
Collectively assessed	(1,931,710)	(63,027)	(1,994,737)



徽商银行股份有限公司
Huishang Bank Corporation Limited