2017 年度報告
ANNUAL REPORT

錦州銀行股份有限公司
Bank of Jinzhou Co.,Ltd.*

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

Stock Code: 0416

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

Contents

Definitions

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

"A Share Offering"	the Bank's proposed initial public offering of not more than 1,927,000,000 A shares, which has been approved by the Shareholders on 29 June 2016
"Articles of Association"	the articles of association of the Bank, as the same may be amended from time to time
"the Bank", "Bank of Jinzhou" or "Group"	Bank of Jinzhou Co., Ltd. (錦州銀行股份有限公司), a joint stock company incorporated in the PRC on 22 January 1997 with limited liability in accordance with PRC laws and, unless context indicates otherwise, its subsidiaries, branches, sub-branches and special institutions
"Board" or "Board of Directors"	the board of Directors
"Board of Supervisors"	the supervisory board of the Bank
"CBRC"	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
"CBRC Liaoning Bureau"	the China Banking Regulatory Commission Liaoning Bureau (中國銀行業監督管理委員會遼寧監管局)
"CSRC"	the China Securites Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	the director(s) of the Bank
"Domestic Share(s)"	the ordinary shares issued by the Bank in the PRC, with a nominal value of RMB1.00 each, which are subscribed for and fully paid up in Renminbi
"ETC card"	dedicated IC card for motor vehicles (passenger cars) to pay highway tolls
"H Share(s)"	the ordinary shares in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
"HK$" or "HK dollars"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IC card"	integrated circuit card, with microelectronic chips embedded in the card base in line with ISO7816 standards, which is made in the form of a card and widely used in the financial sector
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as the same may be amended, supplemented or otherwise modified from time to time

"Offshore Preference Shares"	the outstanding offshore preference shares issued by the Bank of RMB100 each in the preference shares capital of the Bank, which were listed on the Hong Kong Stock Exchange and traded in US dollars (stock code: 4165)
"PBOC" or "Central Bank"	the People's Bank of China (中國人民銀行)
"PRC" or "China"	the People's Republic of China, but for the purposes of this annual report only, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
"Reporting Period"	the year ended 31 December 2017
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
"Shareholder(s)"	the shareholder(s) of the Bank
"Share(s)"	the Domestic Share(s) and the H Share(s)
"Supervisor(s)"	the supervisor(s) of the Bank

Chapter 1 Company Profile

I. Basic Information about the Company

Legal Chinese Name and Abbreviation	:	錦州銀行股份有限公司 (abbreviated as 錦州銀行)
Legal English Name and Abbreviation	:	BANK OF JINZHOU CO., LTD. (abbreviated as "BANK OF JINZHOU")
Legal Representative	:	Zhang Wei
Authorized Representatives	:	Zhang Wei, Wang Jing
Secretary of the Board	:	Sun Jing
Joint Company Secretaries	:	Wang Jing, Leung Wing Han Sharon
Registered and Office Address	:	No. 68 Keji Road, Jinzhou City, Liaoning Province, the PRC
Telephone	:	+86-416-3220002
Fax	:	+86-416-3220003
Postal Code	:	121013
Company Website	:	www.jinzhoubank.com
Email Address	:	webmaster@jinzhoubank.com
Customer Service Hotline	:	+86-400-66-96178
Principal Place of Business in Hong Kong	:	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Accountant	:	KPMG
PRC Legal Advisor	:	Zhong Lun Law Firm
Hong Kong Legal Advisor	:	Luk & Partners in Association with Morgan, Lewis & Bockius
Custodian of Domestic Shares	:	China Securities Depository and Clearing Corporation Limited

H Share Registrar	:	Computershare Hong Kong Investor Services Limited
Listing Place of Stock, Stock Name and Stock Code	:	H Share: The Stock Exchange of Hong Kong Limited; BANKOFJINZHOU; 0416 Offshore Preference Shares: The Stock Exchange of Hong Kong Limited; BOJZ 17USDPREF; 4615
Uniform Social Credit Code of Corporation	:	912107002426682145
Finance License No. of Institution	:	B0127H221070001
Website of the Hong Kong Stock Exchange where this annual report is published	:	www.hkexnews.hk
Place where the annual report is maintained	:	Office of the Board

II. Company Profile

Bank of Jinzhou was incorporated, with approval of the PBOC, on 22 January 1997, headquartered in Jinzhou City, Liaoning Province, the PRC. There are 15 branches established in Beijing, Tianjin, Shenyang, Dalian, Harbin, Dandong, Fushun, Anshan, Chaoyang, Fuxin, Liaoyang, Huludao, Benxi, Yingkou and Jinzhou, the PRC and 7 village and township banks, namely Jinzhou Taihe Jinyin Village and Township Bank Co., Ltd. (錦州太和錦銀村鎮銀行股份有限公司), Liaoning Yi County Jinyin Village and Township Bank Co., Ltd. (遼寧義縣錦銀村鎮銀行股份有限公司), Liaoning Beizhen Jinyin Village and Township Bank Co., Ltd. (遼寧北鎮錦銀村鎮銀行股份有限公司"Liaoning Huanren"), Liaoning Heishan Jinyin Village and Township Bank Co., Ltd. (遼寧黑山錦銀村鎮銀行股份有限公司),Liaoning Kazuo Jinyin Rural Bank Co., Ltd. (遼寧喀左錦銀村鎮銀行股份有限公司), Liaoning Linghai Jinyin Village and Township Bank Co., Ltd. (遼寧淩海錦銀村鎮銀行股份有限公司) and Liaoning Huanren Jinyin Village and Township Bank Co., Ltd. (遼寧桓仁錦銀村鎮銀行股份有限公司) were promoted and established; meanwhile, Bank of Jinzhou promoted and established Bank of Jinzhou Financial Leasing Co., Ltd. (錦銀金融租賃有限責任公司). As at the end of the Reporting Period, the Bank had 232 branches in aggregate.

As at the end of the Reporting Period, the Bank had total assets of RMB723.418 billion, total loans and advances released of RMB215.121 billion and total deposits of RMB342.264 billion.

The Bank ranked 203rd by the Bank's total tier 1 capital as of 31 December 2016 according to the Top 1,000 World Banks ranking list published by The Banker in July 2017.

The Bank has been listed on the Main Board of the Hong Kong Stock Exchange on 7 December 2015. On 27 October 2017, the Bank successfully issued US$1.496 billion of Offshore Preference Shares and were listed on the Hong Kong Stock Exchange with stock code 4615.

III. Awards in 2017

In January 2017, the Bank was granted the 2016 Most Potential Award for UnionPay Card Business (銀聯卡業務最具潛力獎) by China UnionPay (中國銀聯).

In January 2017, the Bank was granted the Best Organization Award for 10th Anniversary of Quality Services (優服創建十周年最佳組織獎) by Liaoning Banking Association (遼寧省銀行業協會).

In February 2017, the Bank was recognized as Outstanding Contribution Enterprise to the Strenuous Task of Eliminating Poverty (脱貧攻堅特殊貢獻企業) by Jinzhou Municipal Party Committee (錦州市委) and Jinzhou Municipal Government (錦州市政府).

In March 2017, the Bank was recognized as the 2016 Active Trader in the Interbank Domestic Currency Market (2016年度銀行間本幣市場活躍交易商) by National Interbank Funding Centre (全國銀行間同業拆借中心).

In June 2017, the Bank was recognized the Advanced Unit in Ideological and Political Work in Liaoning Province (遼寧省思想政治工作先進單位) by Publicity Department of Liaoning Province (遼寧省委宣傳部), State-owned Assets Supervision and Administration Commission of Liaoning Province (遼寧省國資委) and Trade Union of Liaoning Province (遼寧省總工會).

In June 2017, the Bank was granted the 2017 Growth Value Award of China Business Journal on FinTech (2017中經金融科技成長價值獎) by China Business Journal (中國經營報).

In July 2017, the Bank was selected by the Securities Times (證券財報) for the 2017 China Wealth Management Organization Jun Ding Award (2017年中國財富管理機構鼎獎) campaign and won the 2017 China City Commercial Bank (China Rural Commercial Bank) Wealth Management Brand Jun Ding Award (2017年中國同城南行(農商行)理財品牌君鼎獎) and 2017 China Wealth Management Banking Products Jun Ding Award – Stable Income Type (2017年中國穩健收益型銀行理財產品君鼎獎).

In September 2017, the Bank was ranked first among the Rating on Competitiveness of City Commercial Banks with an Asset Size of RMB300 Billion or More in 2016 (2016年度資產規模人民幣3,000億元以上城市商業銀行競爭力排名第一名) and Best City Commercial Bank in 2016 (2016年度最佳城市商業銀行) by China's Banker (銀行家) magazine.

In November 2017, the Bank was awarded 2017 National Top Ten Banks for Supporting the Small and Medium Sized Enterprises Development (2017年度全國支持中小企業發展十佳商業銀行) by China Small and Medium Sized Enterprises Association (中國中小商業企業協會) and China General Chamber of Commerce (中國商業聯合會).

In December 2017, the Bank won the Best Internet Banking Business Innovation Award 2017 (2017年區域性銀行最佳互聯網金融業務創新獎) issued by China Financial Certification Authority (CFCA) (中國金融認證中心) and China Electronic Banking Network (中國電子銀行網).

In December 2017, the Bank won the award for Excellent Asset Management Bank (卓越資產管理銀行) two years in a row in the 2017 China Financial Development Forum and the 8th Jinding Award (2017中國金融發展論壇暨第八屆金鼎獎) campaign organized by the Daily Economic News (每日經濟新聞).

I. Financial Data

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017	2016	2017 vs 2016	2015	2014	2013
Operating Results			Change (%)			
Interest income	**39,943,533**	27,897,191	43.2	21,819,437	13,582,488	8,522,877
Interest expense	**(21,410,609)**	(12,448,982)	72.0	(11,015,124)	(7,954,065)	(4,701,435)
Net interest income	**18,532,924**	15,448,209	20.0	10,804,313	5,628,423	3,821,442
Net fee and commission income	**736,674**	809,265	(9.0)	500,790	116,323	75,271
Net trading (losses)/gains	**(278,264)**	49,948	(657.1)	97,164	470	(5,671)
Dividend income	**640**	895	(28.5)	6,440	6,360	6,320
Net gains/(losses) arising from investment securities	**30,796**	10,348	197.6	2,896	8,396	(3,643)
Net foreign exchange (losses)/gains	**(239,637)**	53,724	(546.1)	85,895	7,872	4,257
Other net operating income	**22,859**	41,460	(44.9)	19,886	26,765	24,121
Operating income	**18,805,992**	16,413,849	14.6	11,517,384	5,794,609	3,922,097
Operating expenses	**(3,308,138)**	(2,758,039)	19.9	(2,724,872)	(2,213,490)	(1,888,077)
Operating profit before impairment	**15,497,854**	13,655,810	13.5	8,792,512	3,581,119	2,034,020
Impairment losses on assets	**(3,444,523)**	(2,784,895)	23.7	(2,296,943)	(793,469)	(274,739)
Profit before taxation	**12,053,331**	10,870,915	10.9	6,495,569	2,787,650	1,759,281
Income tax expense	**(2,963,273)**	(2,671,469)	10.9	(1,587,513)	(664,473)	(403,783)
Profit for the year	**9,090,058**	8,199,446	10.9	4,908,056	2,123,177	1,355,498
Net profit attributable to equity shareholders of the parent company	**8,976,990**	8,129,590	10.4	4,898,761	2,115,715	1,350,691
Calculated on a Per Share Basis (RMB)			Change			
Basic and diluted earnings per share	**1.32**	1.40	(0.08)	1.09	0.54	0.35
Major indicators of assets/liabilities			Change (%)			
Total assets	**723,417,650**	539,059,522	34.2	361,659,913	250,692,720	175,513,850
Of which: loans and advances to customers	**209,084,947**	121,930,761	71.5	97,313,206	86,548,794	76,728,790
Total liabilities	**663,252,922**	496,165,210	33.7	335,388,599	234,815,584	164,004,535
Of which: deposits from customers	**342,264,228**	262,969,211	30.2	170,178,722	119,402,997	92,764,588
Share capital	**6,781,616**	6,781,616	—	5,781,616	4,402,234	3,902,234
Total equity attributable to euqity shareholders of the parent company	**56,230,555**	39,035,430	44.1	25,598,461	15,658,315	11,398,776
Total equity	**60,164,728**	42,894,312	40.3	26,271,314	15,877,136	11,509,315

II. Financial Indicators

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December					
	2017	2016	2017 vs 2016	2015	2014	2013
Profitability indicators (%)			**Change**			
Return on average total assets[1]	**1.44**	1.82	(0.38)	1.60	1.00	0.91
Return on average equity[2]	**21.03**	25.16	(4.13)	23.75	15.64	12.00
Net interest spread[3]	**2.58**	3.41	(0.83)	3.29	2.43	2.32
Net interest margin[4]	**2.88**	3.67	(0.79)	3.51	2.63	2.52
Net fee and commission income to operating income ratio	**3.92**	4.93	(1.01)	4.35	2.01	1.92
Cost-to-income ratio[5]	**15.71**	14.83	0.88	18.80	31.26	40.47
Assets quality indicators (%)			**Change**			
Non-performing loan ratio[6]	**1.04**	1.14	(0.10)	1.03	0.99	0.87
Allowance coverage ratio[7]	**268.64**	336.30	(67.66)	369.13	256.15	226.40
Allowance to loans ratio[8]	**2.81**	3.84	(1.03)	3.82	2.53	1.97
Capital adequacy indicators (%)			**Change**			
Core tier 1 capital adequacy ratio[9]	**8.44**	9.79	(1.35)	8.96	8.64	9.76
Tier 1 capital adequacy ratio[10]	**10.24**	9.80	0.44	8.97	8.64	9.76
Capital adequacy ratio	**11.67**	11.62	0.05	10.50	10.45	10.89
Total equity to total assets	**8.32**	7.96	0.36	7.26	6.33	6.56
Other Indicators (%)			**Change**			
Loan-to-deposit ratio[11]	**53.68**	40.36	13.32	47.44	55.70	66.62

Notes:

(1) Represents the net profit for the year as a percentage of the average balance of total assets at the beginning and the end of that year.

(2) Represents the Bank's net profit attributable to the parent company for the year as a percentage of the average balance of net assets attributable to Shareholders of the parent company at the beginning and at the end of that year.

(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(4) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.

(5) Cost-to-income ratio = operating expenses (excluding tax and surcharges)/operating income.

(6) Non-performing loan ratio = total non-performing loans/total loans and advances to customers.

(7) Allowance coverage ratio = allowance for impairment losses on loans/total non-performing loans.

(8) Allowance-to-loans ratio = allowance for impairment losses on loans/total loans and advances to customers.

(9) Core tier 1 capital adequacy ratio = (core tier 1 capital — corresponding capital deductions)/risk-weighted assets.

(10) Tier 1 capital adequacy ratio = (tier 1 capital — corresponding capital deductions)/risk-weighted assets.

(11) Such ratios represent the ratios the Bank submitted to the CBRC and were calculated in accordance with financial data under the PRC GAAP and the CBRC requirements.

Chapter 3 Chairman's Statement

2017 was a crucial year for the implementation of the national "13th Five-Year Plan". The economic and financial situation in China had been complex and variable, whilst structural reforms on the supply side advanced further. As financial supervision in China became more rigorous and competition within the industry became increasingly intense, with the support of its the Shareholders and friends at large, the Board, under the effective supervision of the board of Supervisors, earnestly implemented the national policies and regulatory requirements. By tightly adhering to the operation principles of "mode transformation, structural adjustment, risks control and stable development", the Bank defined its position in the overall strategic deployment and overcame difficulties with responsibility. By driving development through innovation and ensuring the quality through risk control, the Bank complied with its fiduciary duties with due diligence, and achieved successful operating results in a steady and progressive manner.

In 2017, the Bank seized the right opportunity to accelerate external financing and successfully completed the issuance of US$1.496 billion of Offshore Preference Shares, which materialized exploration and practice of a multi-level capital replenishment mechanism. Regional layout within the provinces were improved, which further expanded the business coverage area and enhanced brand influence. The financial leasing companies and rural banks continued to develop financial services with characteristics and built integrated business platforms with complementary advantages and complementary services. The Bank had been proactively promoting "Three Basis & Three Smalls (三基三小)", retail business, international business sector products and service innovation, which improved the accommodation and flexibility of financial services. By conforming to the new trend of development in financial technology, the Bank focused on the three major elements, namely, "finance + technology + living", which innovated and developed payment platform application scenarios, and upgraded service standards in the process of technological change. We must use the basic functions of grass-roots branches and grass-roots party organizations to serve the people in cities and rural areas, so that they will become more familiar with financial knowledge. The Bank supported "Sannong" as well as small and micro enterprises, which promoted inclusive finance in order to meet the needs of the physical economy. We had firmly carried out precise poverty alleviation work from the financial perspective and took the initiative to take up social responsibilities. Through policy support, industrial support, accurate and targeted poverty alleviation, the "three-pronged approach" had accurately and practically created a financial poverty alleviation model with its own characteristics. The Bank become the only financial institution in Jinzhou City that won the title of "Enterprise with Special Contribution to Poverty Alleviation".

In 2017, the assets of the Bank grew steadily. Profitability developed steadily, and the brand image continued to enhance. As of the end of 2017, the Bank's assets reached RMB723.418 billion, representing an increase of 34.2% on a year-on year basis. Total deposits amounted to RMB342.264 billion, representing an increase of 30.2% on a year-on year basis. The total amount of loans and advances granted amounted to RMB215.121 billion, representing an increase of 69.7% on a year-on year basis. Net profit for the year amounted to RMB9.090 billion, representing an increase of 10.9% on a year-on-year basis. The Bank was well recognized by the public, its peer associations and investors for its good corporate governance and operating performance. It was ranked 203th in Top 1000 Global Banks 2017 as announced by the Bankers in the United Kingdom, moving up the list by 47 places as compared to previous year. The Bank was ranked first among the "Rating on Competitiveness of City Commercial Banks with an Asset Size of RMB300 Billion or More in 2016 (2016年度資產規模人民幣3,000億元以上城市商業銀行競爭力排名第一名)" and "Best City Commercial Bank in 2016 (2016年度最佳城市商業銀行)" by China's "Banker (銀行家)" magazine.

Without the best endeavours of all employees of the Bank, as well as the care and support of customers, investors and the community, such remarkable achievements shall not be achieved. On behalf of the Board, I hereby would like to express my sincere gratitude to all friends from the society at large who care about and support the development of the Bank! At the same time, the second session of the 2017 Extraordinary General Meeting elected members of the fifth session of the members of the Board. I would like to take this opportunity to express our sincere gratitude to the retiring Directors for their contributions to the Bank and to extend a warm welcome to the new members.

Things are bitter and sweet. Once you taste and you will know. There is a risk to the road and those who are on track know it. The year of 2018 was a crucial year for the implementation of the National 13th Five-Year Plan and the deepening of various reforms. It is also a period of hard work for the high-quality development of the Bank. Standing at a new historical starting point, faced with complex operating environments and a more cautious and comprehensive regulatory environment, the Bank will take the spirit of the 19th National Congress of the Communist Party of China as its lead and take proactive measures to prevent risks, promote development, and stabilize operations. By adhering to the principle of serving the physical economy, the Bank is planning innovation and reforming financial technology. The Bank will continue to optimize its management and enhance the organic growth and development, so as to fulfill the expectations of a majority of investors at large and all sectors of the community for a new era in the promising future.

ZHANG Wei
Chairman

Jinzhou, China
29 March 2018

Chapter 4 President's Statement

2017 was an important year for the Bank to implement the 13th Five-Year Strategic Plan. It was also a year critical to the Bank for improving quality and efficiency, as well as maintaining sustainable development. Faced with complex internal and external operating environments and comprehensive and tightly regulated regulatory policies, the management of the Bank closely focused on the overall strategies and objectives proposed by the Board, and persistently executed the operation policies of "mode transformation, structural adjustment, risks control and stable development". The Bank insisted on its development philosophy, and strictly complied to the laws and regulations in a prudent manner. By adhering to sound management, the Bank was committed to breakthrough and achieved good operating results from its dedicated efforts.

In 2017, the Bank achieved steady growth and improvement in total volume and quality. As of 31 December 2017, total assets of the Bank amounted to RMB723.418 billion, representing a year-on-year increase of 34.2%; total deposits amounted to RMB342.264 billion, representing a year-on-year increase of 30.2%; total loans and advances granted amounted to RMB215.121 billion, representing a year-on-year increase of 69.7%; net profit of RMB9.09 billion was realized for the year, representing a year-on-year increase of 10.9%, advancing a next level up for the operating results; the capital adequacy ratio was 11.67%; non-performing loan ratio was 1.04%; provision coverage was 268.64%; and cost-to-income ratio was 15.71%, with steady improvement in management efficiency.

The year of 2017 was a year in which the business segments of the Bank were making progress and achieving sustainable growth. During the year active liability management was strengthened to increase the source of stable and low-cost liabilities. We will focus on the "Add RMB50 Billion New Savings" activity, consolidate deposits, optimize the structure, and provide a solid foundation for various operations. At the same time, the Bank insisted on beginning the reform by serving the physical economy and serving the supply side as a starting point. The "Double-base Link" was used as a starting point for inclusive finance; and the financial supply to regional economies, small and micro enterprises, and urban and rural residents was expanded. In the financial market business, the Bank obtained the qualifications of bookbuilding underwriters for non-financial corporate debt financing instruments and qualifications for general derivatives. A bill center was set up, which actively adjusted and optimizeed the business structure, thereby effectively utilizing the synergies and linkages of various business segments.

The year of 2017 was the year that the Bank strictly adhered to the bottom line for risk management control measures. Our business philosophy of "Compliance in Action" was further developed in depth, which continued to promote the construction of Phase II Comprehensive Risk Management Project. Through activities in"Standardization of Business and Standardization of Management", the Bank clarified the risk points and control measures for roles and businesses, and further enhanced the effectiveness in the system and processes of the Bank. Risk control in key areas and key industries were strengthened. With unified credit management, dynamic risk monitoring and early warning, the stability of asset quality were ensured. Upon focusing on liquidity risks, the Bank strengthened the linkage response between centralized management and front-, middle- and back-office departments. As such, the effectiveness of liquidity management approaches and tools was enhanced.

The year of 2017 was the year that the Bank took the initiative to make innovations in financial technologies. By focusing on the three major elements of "finance+technology+life", the Bank explored online finance, smart banking, face recognitions cash withdrawals, biometrics, intelligent robots, smart ATMs, smart food farms, and medical doctors in different scenarios such as market, healthcare, consumer, and campus and applied in daily operations. A comprehensive card issuing business was formally launched. An integrated scoring platform had completed its online preparation, and a smart customer service project had began operation in full.

2017 was a year in which the management quality of the Bank became increasingly lean and strong. The Bank successfully issued US$1.496 billion of Offshore Preference Shares, which further consolidated the capital base. Yingkou Branch commenced its operation smoothly, and the deployment of organization structure was further advanced. By full capitalsing the role of resource management, assets and liabilities management gradually shifted to a model of value creation and active management. The level of financial segmentation management was improved continuously. The management accounting system and information application mechanism had become increasingly sophisticated. The promotion of the whole series of professional were completed to greatly enhance the effectiveness of personnel. Information technology has started or optimized 22 key projects. The graphic front-end system was promoted under the jurisdiction of the government, which greatly uplifted the level of intensive operations and met business development needs.

In 2017, it was a year for the Bank to strengthen party building, brand promotion and to upload its values. The Bank solidly promoted the normalization of study and education through "Two Learning and One Action", which implemented the spirit of the 19th National Congress of the Communist Party of China. Through activities such as the party member day, staff party member visiting the community, publicity, education, supervision, and inspections were consolidated. The level of party building was enhanced as a whole upon cohesive efforts, which promoted the implementation of key projects. At the same time, the "Jinzhou Bank" high-speed rail commenced its operation in Beijing. Our brand image and social influence were further enhanced.

The history illustrates the future. In 2018, the Bank will fiduciously implement the spirits of the 19th National Congress of the Communist Party of China, the requirements of National Financial Work Conference and the spirit of the Central Economic Work Conference. In accordance with the overall strategic plan, and in accordance with regulatory policies, a new pattern of high quality development of Bank of Jinzhou will be formed on the bases of forging quality for serving physical economy, where how to ensure the overall quality of risk management is critical, and how to enhance the quality of operation and management is deemed as a support.

On behalf of the management, I hereby would like to sincerely thank the Board and the board of Supervisors for their careful guidance. I would also like to thank all staff for their hard work and thank our customers, investors and the community for their full support.

LIU Hong
President

Jinzhou, China
29 March 2018

Chapter 5 Management Discussions and Analysis

I. Environment and Outlook

In 2017, the international economic environment gradually recovered. Global economic activities continued to consolidate. Growth of developed economies accelerated; while the status of emerging markets and developing economies was gradually improving. However, some of the economies still faced the pressure from adjustment and transformation; the global financial situations were basically stable, price levels remained stable and market volatility remained low.

In 2017, under the guidance of the new development concept, economic operation in China progressed stablely and steadily with sound results. The economic structure has been continuously optimized and the supply-side structural reform has been continuously promoted. The Bank further implemented innovation-driven development strategies and accelerated the construction of a modern economic system. Through coordinated efforts to promote steady growth, facilitate reform, reorganize the structure, benefit people's livelihoods, and prevent risks, economic and social development was maintained in a sound and healthy manner. GDP for the whole year reached RMB82.71 trillion, representing an increase of 6.9%.

Looking ahead in 2018, global economic environment is anticipated to improve further, with improved prospects of developed economies. The growth prospects of emerging markets and developing economies will tend to be steady. In the meantime, we are facing the test of the international economic structure changes.

2018 was a year crucial to the implementation of the 13th Five-Year Plan by the State. Under the new development concept, the overall tone of the work of stability and progress will remain unchanged. The Bank will coordinate the overall layout of the "Five in One" and facilitate the deployment of the "Four Comprehensive Strategies". By adhering to the supply-side structural reform as the theme, the construction of an innovative country will be speeded up. With a focus on serving the physical economy, financial risks were prevented and controlled, and financial reforms were further developed. The gradual implementation of the strategies of rural revitalization, the coordinated regional development strategies, the comprehensive reform and opening up of the financial industry, and the tightening of financial supervision provided the banking industry with new opportunities and challenges in its business development.

II. Development Strategies

In 2018, the Bank will implement the requirements of the 19th National Congress of the Communist Party of China, the National Financial Work Conference and the spirit of the Central Economic Work Conference. By adhering to the operation principle of "mode transformation, structural adjustment, risks control and stable development", the Bank actively connected with national strategic plans and seized the opportunity to deepen financial reforms. We tightly guarded against the risk and strictly observing the bottom line, keeping in mind that the source was rooted in the physical economy. Based on the theme of reform and development, transformation and reconstruction will be the key concepts. They will be driven by innovation and technology, guaranteed by standards and stability with a vision in effectiveness and quality. The Bank will consolidate the "Three Basis & Three Smalls (三基三小)" business and serve the physical economy. A diversified and characteristic business pattern with low capital consumption will be established. This will comprehensively enhance the Bank's management efficiency of refining, professionalization and synergies, thereby promoting the formation of a new pattern of high-quality development of the Bank.

III. Financial Review

During the Reporting Period, with the continuous deepening of the supply-side reform in macro economy and the continuous development of financial technology, the continuous change of capital market and the intensifying competitions in interbank market, the Bank experienced rapid and healthy development in its various business and delivered sound returns to the investors of the Bank and the Shareholders by the active implementation of the five development concepts of "Innovation, Coordination, Green, Openness, Sharing of the country and the combination with the operation principle of "Changing mode, Adjusting structure, Controlling risk and Strengthening development" of the Bank.

In 2017, the Bank recorded a net profit of RMB9,090 million, representing an increase of 10.9% as compared to the previous year. The Bank's performance not only delivered sound returns to the Shareholders and its investors, but also laid a solid foundation for its sustainable development.

As of 31 December 2017, the total assets of the Bank amounted to RMB723,418 million, representing a year-on-year increase of 34.2%; the net loans and advances to customers amounted to RMB209,085 million, representing a year-on-year increase of 71.5%; the non-performing loan ratio was 1.04%; the balance of deposits from customers of the Bank amounted to RMB342,264 million, representing a year-on-year increase of 30.2%. During the Reporting Period, the operating income of the Bank amounted to RMB18,806 million, representing a year-on-year increase of 14.6%; and the net profit amounted to RMB9,090 million, representing a year-on-year increase of 10.9%.

On 27 October 2017, the Bank issued 74,800,000 non-accumulative perpetual Offshore Preference Shares with the par value of RMB100 each. All the proceeds, after deducting the related fees and expenses, were used to replenish other tier 1 capital of the Bank. As of 31 December 2017, the Bank's capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 11.67%, 10.24% and 8.44%, respectively.

(I) Analysis of the Income Statement

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017	2016	Change in amount	Rate of change (%)
Interest income	**39,943,533**	27,897,191	12,046,342	43.2
Interest expense	**(21,410,609)**	(12,448,982)	(8,961,627)	72.0
Net interest income	**18,532,924**	15,448,209	3,084,715	20.0
Net fee and commission income	**736,674**	809,265	(72,591)	(9.0)
Net trading (losses)/gains	**(278,264)**	49,948	(328,212)	(657.1)
Dividend income	**640**	895	(255)	(28.5)
Net gains arising from investment securities	**30,796**	10,348	20,448	197.6
Net foreign exchange (losses)/gains	**(239,637)**	53,724	(293,361)	(546.1)
Other net operating income	**22,859**	41,460	(18,601)	(44.9)
Operating income	**18,805,992**	16,413,849	2,392,143	14.6
Operating expenses	**(3,308,138)**	(2,758,039)	(550,099)	19.9
Impairment losses on assets	**(3,444,523)**	(2,784,895)	(659,628)	23.7
Profit before tax	**12,053,331**	10,870,915	1,182,416	10.9
Income tax expense	**(2,963,273)**	(2,671,469)	(291,804)	10.9
Profit for the year	**9,090,058**	8,199,446	890,612	10.9

During the Reporting Period, the Bank's profit before tax was RMB12,053 million, representing a year-on-year increase of 10.9%; net profit was RMB9,090 million, representing a year-on-year increase of 10.9%, mainly attributable to the stable growth of interest-earning assets resulting in the increase in net interest income of RMB3,085 million or 20.0% as compared to last year.

1. Net interest income

Net interest income accounted for the largest portion of the Bank's operating income, representing 98.5% and 94.1% of operating income for 2017 and 2016, respectively. The following table sets forth, for the years indicated, the interest income, interest expense and net interest income of the Bank:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017	2016	Change in amount	Rate of change (%)
Interest income	**39,943,533**	27,897,191	12,046,342	43.2
Interest expense	**(21,410,609)**	(12,448,982)	(8,961,627)	72.0
Net interest income	**18,532,924**	15,448,209	3,084,715	20.0

The following table sets forth, for the years indicated, the average balance of interest-earning assets and interest-bearing liabilities, the relevant interest income or expense and relevant average yield on interest-earning assets or relevant average cost on interest-bearing liabilities of the Bank.

	For the year ended 31 December					
	2017			2016		
(Expressed in thousands of Renminbi, unless otherwise stated)	**Average balance**	**Interest income/ expense**	**Average yield/ cost (%)**	Average balance	Interest income/ expense	Average yield/ cost (%)
Interest-Earning Assets						
Loans and advances to customers	**175,586,314**	**11,109,727**	**6.33**	112,343,694	7,597,435	6.76
Investment securities and other financial assets [(1)]	**393,350,486**	**27,144,523**	**6.90**	264,092,219	19,390,157	7.34
Cash and deposits with the central bank	**47,311,691**	**729,694**	**1.54**	33,961,224	515,757	1.52
Deposits with banks and other financial institutions	**12,497,769**	**354,559**	**2.84**	4,207,779	178,037	4.23
Placements with banks and other financial institutions	**1,858,677**	**32,611**	**1.75**	980,721	10,100	1.03
Financial assets held under resale agreements	**7,222,692**	**216,957**	**3.00**	3,931,486	87,682	2.23
Financial lease receivables	**5,307,782**	**355,462**	**6.70**	1,742,711	118,023	6.77
Total interest-earning assets	**643,135,411**	**39,943,533**	**6.21**	421,259,834	27,897,191	6.62

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017 Average balance	Interest income/ expense	Average yield/ cost (%)	2016 Average balance	Interest income/ expense	Average yield/ cost (%)
Interest-Bearing Liabilities						
Deposits from customers	**330,001,288**	**10,088,102**	**3.06**	215,073,252	5,238,664	2.44
Deposits from banks and other financial institutions	**120,670,223**	**5,664,850**	**4.69**	130,440,389	5,723,145	4.39
Placements from banks and other financial institutions	**11,994,250**	**275,451**	**2.30**	4,157,929	42,496	1.02
Financial assets sold under repurchase agreements	**31,641,761**	**1,152,199**	**3.64**	17,831,179	588,392	3.30
Debt securities issued	**72,761,648**	**3,342,613**	**4.59**	3,925,479	185,795	4.73
Financial liabilities at fair value through profit or loss	**22,225,907**	**884,801**	**3.98**	16,474,314	670,490	4.07
Borrowings from the central bank	**117,066**	**2,593**	**2.21**	—	—	—
Total interest-bearing liabilities	**589,412,143**	**21,410,609**	**3.63**	387,902,542	12,448,982	3.21
Net interest income		**18,532,924**			15,448,209	
Net interest spread (2)			**2.58**			3.41
Net interest margin (3)			**2.88**			3.67

Notes:

(1) Investment securities and other financial assets consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

(2) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(3) Calculated by dividing net interest income by the average interest-earning assets (based on the daily average of the interest-earning assets).

The following table sets forth, for the years indicated, the changes in the Bank's interest income and interest expense attributable to changes in volume and interest rate. Changes in volume are measured by changes in the average balances of interest-earning assets and interest-bearing liabilities and changes in interest rate are measured by the average interest rates of the interest-earning assets and interest-bearing liabilities. Effect of changes caused by both volume and interest rate has been allocated to changes in net interest income.

(Expressed in thousands of Renminbi, unless otherwise stated)	2017 vs 2016 Volume (1)	Interest rate (2)	Net increase/ (decrease) (3)
Interest-Earning Assets			
Loans and advances to customers	4,276,891	(764,599)	3,512,292
Investment securities and other financial assets	9,490,390	(1,736,024)	7,754,366
Cash and deposits with the central bank	202,749	11,188	213,937
Deposits with banks and other financial institutions	350,761	(174,239)	176,522
Placements with banks and other financial institutions	9,042	13,469	22,511
Financial assets held under resale agreements	73,402	55,873	129,275
Financial lease receivables	241,440	(4,001)	237,439
Changes in interest income	14,644,675	(2,598,333)	12,046,342
Interest-bearing Liabilities			
Deposits from customers	2,799,369	2,050,069	4,849,438
Deposits from banks and other financial institutions	(428,671)	370,376	(58,295)
Placements from banks and other financial institutions	80,091	152,864	232,955
Financial assets sold under repurchase agreements	455,721	108,086	563,807
Debt securities issued	3,258,052	(101,234)	3,156,818
Financial liabilities at fair value through profit or loss	234,085	(19,774)	214,311
Borrowings from the central bank	2,593	—	2,593
Changes in interest expense	6,401,240	2,560,387	8,961,627
Changes in net interest income	8,243,435	(5,158,720)	3,084,715

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/average cost for such previous year.

(2) Represents the average yield/average cost for the year minus the average yield/average cost for the previous year, multiplied by the average balance for the year.

(3) Represents interest income/expense for the year minus interest income/expense for the previous year.

2. **Interest income**

The following table sets forth, for the years indicated, the breakdown of the Bank's interest income:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017 Amount	2017 % of total	2016 Amount	2016 % of total
Loans and advances to customers				
Corporate loans	**10,396,679**	**26.0**	6,930,209	24.9
Retail loans	**599,313**	**1.5**	645,924	2.3
Discounted bills	**113,735**	**0.3**	21,302	0.1
Subtotal	**11,109,727**	**27.8**	7,597,435	27.3
Investment securities and other financial assets	**27,144,523**	**68.0**	19,390,157	69.5
Cash and deposits with the central bank	**729,694**	**1.8**	515,757	1.8
Deposits with banks and other financial institutions	**354,559**	**0.9**	178,037	0.6
Financial assets held under resale agreements	**216,957**	**0.5**	87,682	0.3
Placements with banks and other financial institutions	**32,611**	**0.1**	10,100	0.1
Financial lease receivables	**355,462**	**0.9**	118,023	0.4
Total	**39,943,533**	**100.0**	27,897,191	100.0

The Bank's interest income increased by 43.2% to RMB39,943,533 thousand in 2017 from RMB27,897,191 thousand in 2016, primarily due to the increase in the investment and loan business of the Bank which resulted in the corresponding increase in interest income.

(1) Interest income from loans and advances to customers

Interest income from loans and advances to customers was a large component of the Bank's interest income, representing 27.8% and 27.3% of the Bank's interest income in 2017 and 2016, respectively. The following table sets forth, for the years indicated, the average balance of loans and advances to customers, relevant interest income and average yield for loans and advances to customers:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December					
	2017			2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	164,957,800	10,396,679	6.30	102,814,469	6,930,209	6.74
Retail loans	9,867,572	599,313	6.07	9,420,358	645,924	6.86
Discounted bills	760,942	113,735	14.95	108,867	21,302	19.57
Total	175,586,314	11,109,727	6.33	112,343,694	7,597,435	6.76

(2) Interest income from investment securities and other financial assets

Interest income from investment securities and other financial assets increased by 40.0% to RMB27,144,523 thousand in 2017 from RMB19,390,157 thousand in 2016, primarily due to increase in the scale of investment assets resulting in corresponding increase in interest income.

(3) Interest income from cash and deposits with the central bank

Interest income from cash and deposits with the central bank increased by 41.5% to RMB729,694 thousand in 2017 from RMB515,757 thousand in 2016, primarily due to increase in the scale of the Bank's deposits resulting in the increase in the amount of the statutory deposit reserves deposited by the Bank with the central bank.

(4) Interest income from deposits with banks and other financial institutions

Interest income from deposits with banks and other financial institutions increased by 99.1% to RMB354,559 thousand in 2017 from RMB178,037 thousand in 2016, mainly due to the increase in average balance of the Bank's deposits with banks and other financial institutions.

(5) Interest income from financial assets held under resale agreements

Interest income from financial assets held under resale agreements increased by 147.4% to RMB216,957 thousand in 2017 from RMB87,682 thousand in 2016, primarily due to an increase in the average balance and the average yield. The average balance of financial assets held under resale agreements increased by 83.7% to RMB7,222,692 thousand in 2017 from RMB3,931,486 thousand in 2016, primarily due to the Bank's investment in financial assets held under resale agreements for management of assets and liabilities. The average yield of financial assets held under resale agreements increased to 3.00% in 2017 from 2.23% in 2016 primarily due to the increase in the interbank market interest rate.

(6) Interest income from placements with banks and other financial institutions

Interest income from placements with banks and other financial institutions increased by 222.9% to RMB32,611 thousand in 2017 from RMB10,100 thousand in 2016, primarily due to an increase in the size and average yield rate of placements with banks and other financial institutions. The average balance of placements with banks and other financial institutions increased by 89.5% to RMB1,858,677 thousand in 2017 from RMB980,721 thousand in 2016. The average yield of placements with banks and other financial institutions rose to 1.75% in 2017 from 1.03% in 2016, primarily due to the increase in the scale of the placements with banks and other financial institutions by the Bank as a result of the increase in the interest rate of US dollars in the monetary market and increase in proportion of placements with banks and other financial institutions with longer terms.

(7) Interest income from financial lease receivables

Interest income from financial lease receivables increased by 201.2% to RMB355,462 thousand in 2017 from RMB118,023 thousand in 2016, primarily due to the increase of average balance of financial lease receivables.

3. Interest expense

The following table sets forth, for the years indicated, the principal components of the Bank's interest expense:

	For the year ended 31 December			
	2017		2016	
(Expressed in thousands of Renminbi, unless otherwise stated)	Amount	% of total	Amount	% of total
Deposits from customers	10,088,102	47.1	5,238,664	42.1
Deposits from banks and other financial institutions	5,664,850	26.5	5,723,145	46.0
Placements from banks and other financial institutions	275,451	1.3	42,496	0.3
Financial assets sold under repurchase agreements	1,152,199	5.4	588,392	4.7
Debt securities issued	3,342,613	15.6	185,795	1.5
Financial liabilities at fair value through profit or loss	884,801	4.1	670,490	5.4
Borrowings from the central bank	2,593	0.0	—	—
Total	21,410,609	100.0	12,448,982	100.0

(1) Interest expense on deposits from customers

The following table sets forth the average balance, interest expense and average cost for each component of the Bank's deposits from customers:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017			2016		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time	**152,526,452**	**4,988,980**	**3.27**	87,364,922	2,822,685	3.23
Demand	**48,952,536**	**342,838**	**0.66**	47,559,196	191,339	0.40
Subtotal	**201,478,988**	**5,313,818**	**2.64**	134,924,118	3,014,024	2.23
Retail deposits						
Time	**114,300,571**	**4,665,025**	**4.08**	68,281,154	2,169,640	3.18
Demand	**14,221,729**	**109,259**	**0.77**	11,867,980	55,000	0.46
Subtotal	**128,522,300**	**4,774,284**	**3.71**	80,149,134	2,224,640	2.78
Total deposits from customers	**330,001,288**	**10,088,102**	**3.06**	215,073,252	5,238,664	2.44

Interest expense on deposits from customers increased by 92.6% to RMB10,088,102 thousand in 2017 from RMB5,238,664 thousand in 2016, primarily due to the increase in the scale of the Bank's deposits and increase in cost.

(2) Interest expense on deposits from banks and other financial institutions

Interest expense on deposits from banks and other financial institutions decreased by 1.0% to RMB5,664,850 thousand in 2017 from RMB5,723,145 thousand in 2016, primarily due to the slight reduction in the average balance of the deposits from banks and other financial institutions.

(3) Interest expense on placements from banks and other financial institutions

Interest expense on placements from banks and other financial institutions increased by 548.2% to RMB275,451 thousand in 2017 from RMB42,496 thousand in 2016, primarily due to the increase in average balance and cost of placements from banks and other financial institutions. The average balance of placements from banks and other financial institutions increased by 188.5% to RMB11,994,250 thousand in 2017 from RMB4,157,929 thousand in 2016, and the average cost of placements from banks and other financial institutions increased from 1.02% in 2016 to 2.30% in 2017, which was mainly attributable to the increase in the offered rate of the US dollars in the monetary market in 2017 and the extension of term of placements from banks and other financial institutions.

(4) Interest expense on financial assets sold under repurchase agreements

Interest expense on financial assets sold under repurchase agreements increased by 95.8% to RMB1,152,199 thousand in 2017 from RMB588,392 thousand in 2016, primarily due to the increase in the average balance and increase in cost. The average balance of financial assets sold under repurchased agreements increased by 77.5% to RMB31,641,761 thousand in 2017 from RMB17,831,179 thousand in 2016. The average cost of the financial assets sold under repurchase agreements increased to 3.64% in 2017 from 3.30% in 2016, mainly due to the increase in the average interest rate in the interbank market in 2017.

(5) Interest expense on debt securities issued

During the Reporting Period, the Bank's interest expense on debt securities issued amounted to RMB3,342,613 thousand, increased by RMB3,156,818 thousand from 2016, which was mainly due to the increase in average balance of the Bank's debt securities issued. The average balance of the Bank's debt securities issued increased by RMB68,836,169 thousand to RMB72,761,648 thousand in 2017 from RMB3,925,479 thousand in 2016, which was mainly due to the increase in issuance size of interbank certificates of deposit of the Bank in 2017.

(6) Interest expense on financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are funds of wealth management products managed and measured at fair value sold by the Bank. The interest expense on financial liabilities at fair value through profit or loss increased by 32.0% to RMB884,801 thousand in 2017 from RMB670,490 thousand in 2016, primarily due to the increase in the average balance in wealth management products funds. The average balance of the Bank's wealth management products increased by 34.9% to RMB22,225,907 thousand in 2017 from RMB16,474,314 thousand in 2016, which was mainly due to the increase in issuance size of wealth management products to meet the enlarged demand of customers for wealth management investment.

4. Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of interest-earning assets.

The net interest spread decreased to 2.58% in 2017 as compared to 3.41% in 2016 and the net interest margin decreased to 2.88% in 2017 as compared to 3.67% in 2016, primarily due to the impact of changes in market interest rate and the adjustment in the structure of the industry.

5. Non-interest income

(1) Net Fee and Commission Income

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017	2016	Change	Rate of change (%)
Fee and Commission Income				
Agency services fees	**360,744**	205,069	155,675	75.9
Settlement and clearing fees	**203,581**	184,083	19,498	10.6
Wealth management service fees	**185,941**	245,069	(59,128)	(24.1)
Underwriting and advisory fees	**65,602**	226,673	(161,071)	(71.1)
Bank card service fees	**14,576**	17,374	(2,798)	(16.1)
Others	**2,389**	5,665	(3,276)	(57.8)
Subtotal	**832,833**	883,933	(51,100)	(5.8)
Fee and Commission Expense				
Settlement and clearing fees	**59,562**	43,393	16,169	37.3
Others	**36,597**	31,275	5,322	17.0
Subtotal	**96,159**	74,668	21,491	28.8
Net fee and commission income	**736,674**	809,265	(72,591)	(9.0)

The fee and commission income decreased to RMB832,833 thousand in 2017 compared to RMB883,933 thousand in 2016, primarily due to the decrease in underwriting and advisory fees as well as wealth management service fees of the Bank.

Fee and commission expense consists primarily of expenses paid to third parties in connection with the Bank's settlement and clearance, trade financing, bank card, agency and consultancy businesses. The Bank's fee and commission expense increased by 28.8% to RMB96,159 thousand in 2017 compared to RMB74,668 thousand in 2016, primarily due to the increase in the Bank's settlement volume.

(2) Net Trading (Losses)/Gains

Net trading (losses)/gains primarily comprises of net gains or losses from trading financial instruments and financial assets and liabilities designated at fair value through profit or loss. During the Reporting Period, the net trading losses of the Bank amounted to RMB278,264 thousand in 2017, while the net trading gains of the Bank amounted to RMB49,948 thousand in 2016. The increase in the Bank's net trading losses in 2017 was primary due to the fact that the derivatives measured at fair value were affected by the market price fluctuation.

(3) Dividend Income

Dividend income decreased by 28.5% to RMB640 thousand in 2017 from RMB895 thousand in 2016.

(4) Net Gains arising from Investment Securities

Net gains from investment securities increased by RMB20,448 thousand to RMB30,796 thousand in 2017 from RMB10,348 thousand in 2016. Such increase was mainly due to the increase in income from trading bonds by the Bank.

(5) Net Foreign Exchange (Losses)/Gains

Foreign exchange (losses)/gains changed to a net loss of RMB239,637 thousand in 2017 from a net gain of RMB53,724 thousand in 2016, primarily due to volatility in exchange rates.

(6) Other Net Operating Income

Other net operating income decreased by 44.9% to RMB22,859 thousand in 2017 from RMB41,460 thousand in 2016.

6. Operating Expenses

During 2017, the Bank's operating expenses were RMB3,308,138 thousand, representing a year-on-year increase of RMB550,099 thousand or 19.9%.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2017	2016	Change	Rate of change (%)
Staff costs	**1,680,269**	1,308,208	372,061	28.4
General and administrative expenses	**869,788**	739,767	130,021	17.6
Tax and surcharges	**169,969**	328,405	(158,436)	(48.2)
Depreciation and amortization	**403,193**	381,258	21,935	5.8
Others	**184,919**	401	184,518	46,014.5
Total operating expenses	**3,308,138**	2,758,039	550,099	19.9

(1) Staff Costs

The following table sets forth, for the years indicated, the principal components of the Bank's staff costs:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017	2016	Change	Rate of change (%)
Salaries and bonuses	**1,231,249**	943,042	288,207	30.6
Staff welfares	**76,554**	61,570	14,984	24.3
Pension	**160,301**	122,277	38,024	31.1
Housing allowances	**84,870**	68,514	16,356	23.9
Other social insurance	**73,439**	59,956	13,483	22.5
Supplementary retirement benefits	**1,629**	466	1,163	249.6
Other long-term staff welfares	**3,909**	14,703	(10,794)	(73.4)
Others	**48,318**	37,680	10,638	28.2
Total staff costs	**1,680,269**	1,308,208	372,061	28.4

During the Reporting Period, the Bank's total staff costs were RMB1,680,269 thousand, representing an increase of RMB372,061 thousand or 28.4% as compared to 2016, primarily due to the increase in labour costs as a result of increases in the remuneration and number of the Bank's employees due to the business development of the Bank.

(2) General and Administrative Expenses

General and administrative expenses increased by 17.6% to RMB869,788 thousand in 2017 compared to RMB739,767 thousand in 2016, primarily due to (i) the increase of daily administration expenses as a result of the increase in outlets; and (ii) the increase of general and administrative expenses as a result of the increase in volume of the Bank's business.

(3) Tax and Surcharges

The Bank's tax and surcharges decreased by 48.2% to RMB169,969 thousand in 2017 from RMB328,405 thousand in 2016, primarily because the Bank has paid value added taxes instead of business taxes since 1 May 2016 pursuant to the requirement of "Circular of the Ministry of Finance and the State Administration of Taxation regarding the Pilot Program on Comprehensive Implementation of Value Added Taxes from Business Taxes Reform (Cai Shui [2016] No. 36) (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]第36號))".

(4) Depreciation and Amortization

Depreciation and amortization increased by 5.8% to RMB403,193 thousand in 2017 from RMB381,258 thousand in 2016, primarily due to increases in depreciation and amortization expenses as a result of the increase in the Bank's properties and equipment and softwares.

(5) Others

Other operating expense of the Bank increased to RMB184,919 thousand in 2017 from RMB401 thousand in 2016, mainly attributable to the Bank's increase in donation to third parties resulting from the Bank's active implementation of the national policy of "targeted poverty alleviation and elimination" during the Reporting Period.

7. Impairment Losses on Assets

The following table sets forth, for the years indicated, the principal components of the Bank's impairment losses on assets:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December **2017**	2016	Change	Rate of change (%)
Impairment losses on loans and advances to customers	**1,623,208**	1,153,424	469,784	40.7
Impairment losses on debt securities classified as receivables	**1,685,216**	1,583,849	101,367	6.4
Impairment losses on financial lease receivables	**132,748**	47,154	85,594	181.5
Impairment losses on other assets	**3,351**	468	2,883	616.0
Total	**3,444,523**	2,784,895	659,628	23.7

Impairment losses on assets increased by 23.7% to RMB3,444,523 thousand in 2017 from RMB2,784,895 thousand in 2016.

8. Income Tax Expense

In 2017, the Bank's income tax was RMB2,963,273 thousand, representing an increase of RMB291,804 thousand or 10.9% as compared to last year. The Bank's actual tax rate was 24.58%, representing an increase of 0.01 percentage point as compared to that of last year.

(II) Analysis of the Statement of Financial Position

1. Assets

As at 31 December 2017 and 31 December 2016, the Bank had total assets of RMB723,417,650 thousand and RMB539,059,522 thousand, respectively. The principal components of the assets were (i) loans and advances to customers; (ii) net investment securities and other financial assets; (iii) cash and deposits with the central bank; and (iv) deposits with banks and other financial institutions, accounting for 28.9%, 58.8%, 7.2% and 1.3% of the Bank's total assets as at 31 December 2017, respectively. The table below sets forth balances of the principal components of the Bank's total assets as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Assets				
Total loans and advances to customers	**215,121,174**	**29.7**	126,800,083	23.5
Provision for impairment losses on loans and advances to customers	**(6,036,227)**	**(0.8)**	(4,869,322)	(0.9)
Net Loans and advances to customers	**209,084,947**	**28.9**	121,930,761	22.6
Net investments securities and other financial assets (1)	**425,372,238**	**58.8**	347,990,616	64.6
Cash and deposits with the central bank	**52,117,510**	**7.2**	43,666,527	8.1
Deposits with banks and other financial institutions	**9,617,694**	**1.3**	8,673,633	1.6
Financial assets held under resale agreements	**3,572,794**	**0.5**	—	—
Placements with banks and other financial institutions	**2,500,000**	**0.3**	—	—
Financial lease receivables (2)	**6,840,341**	**0.9**	4,615,491	0.9
Other assets (3)	**14,312,126**	**2.1**	12,182,494	2.2
Total assets	**723,417,650**	**100.0**	539,059,522	100.0

Notes:

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

(2) Financial lease receivables of Bank of Jinzhou Financial Leasing Co., Ltd.

(3) Include derivative financial assets, interests receivable, property and equipment, deferred tax assets and others.

The Bank's total assets increased by 34.2% from RMB539,059,522 thousand as at 31 December 2016 to RMB723,417,650 thousand as at 31 December 2017. The increase in the Bank's total assets was primarily because the Bank made appropriate expansion of investment and loan size based on the needs of real economy development and the Bank's business development plan, which resulted in the increase in asset size.

(1) Loans and Advances to Customers

As at 31 December 2017, the Bank's total loans and advances to customers were RMB215,121,174 thousand, representing an increase of 69.7% as compared to the end of last year. Total loans and advances to customers accounted for 29.7% of the Bank's total assets, representing an increase of 6.2 percentage points as compared to that at the end of last year.

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Corporate loans	**202,487,355**	**94.2**	117,553,214	92.7
Retail loans	**10,161,100**	**4.7**	9,205,425	7.3
Discounted bills	**2,472,719**	**1.1**	41,444	0.0
Total loans and advances to customers	**215,121,174**	**100.0**	126,800,083	100.0

The Bank's total loans and advances to customers primarily comprise of corporate loans, retail loans and discounted bills. Corporate loans is the largest component of the Bank's loan portfolio. As at 31 December 2017 and as at 31 December 2016, the Bank's corporate loans amounted to RMB202,487,355 thousand and RMB117,553,214 thousand, accounting for 94.2% and 92.7% of the Bank's total loans and advances to customers, respectively.

The Bank's corporate loans increased by 72.3% from RMB117,553,214 thousand as at 31 December 2016 to RMB202,487,355 thousand as at 31 December 2017, primarily due to (i) the continued growth of the market demand for corporate loans; and (ii) the increase of loans granted to new high-quality customers by the Bank.

The Bank's retail loans mainly comprise of personal business loans, residential mortgage loans, personal consumption loans, credit card overdrafts and other personal loans. As at 31 December 2017, the balance of retail loans amounted to RMB10,161,100 thousand, representing an increase of RMB955,675 thousand or 10.4 percentage points as compared to the end of last year, and accounted for 4.7% of the total loans and advances to customers.

A. Loans by collateral

Collateralized loans, pledged loans and guaranteed loans represented, in the aggregate, 92.0% and 96.2% of the Bank's total loans and advances to customers as at 31 December 2017 and 31 December 2016, respectively. If a loan is secured by more than one form of security interest, the entire amount of such loan will be allocated to the category representing the primary form of security interest. The table below sets forth the distribution of the Bank's loans and advances to customers by the type of collateral as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**17,226,342**	**8.0**	4,788,651	3.8
Guaranteed loans	**76,539,268**	**35.6**	45,951,515	36.2
Collateralized loans	**55,872,860**	**26.0**	56,164,010	44.3
Pledged loans	**65,482,704**	**30.4**	19,895,907	15.7
Total loans and advances to customers	**215,121,174**	**100.0**	126,800,083	100.0

As at 31 December 2017, the balance of the Bank's loans secured by mortgages and pledges amounted to RMB121,355,564 thousand, representing an increase of RMB45,295,647 thousand or 59.6% as compared to the end of last year, accounting for 56.4% of the Bank's total loans and advances to customers. The balance of unsecured and guaranteed loans was RMB93,765,610 thousand, an increase of RMB43,025,444 thousand as compared to the end of last year, accounting for 43.6% of the Bank's total loans and advances to customers.

B. Movements of provision for impairment losses on loans and advances to customers

(Expressed in thousands of Renminbi, unless otherwise stated)	**2017**	2016
As at 1 January	**4,869,322**	3,861,204
Charge for the year	**1,766,727**	1,351,168
Release for the year	**(143,519)**	(197,744)
Recoveries for the year	—	2,051
Unwinding of discount	**(67,635)**	(35,907)
Disposal for the year	**(388,668)**	(111,450)
As at 31 December	**6,036,227**	4,869,322

Provision for impairment losses on loans increased by 24.0% from RMB4,869,322 thousand as at 31 December 2016 to RMB6,036,227 thousand as at 31 December 2017, primarily due to the increase in the Bank's provision for impairment losses to counter against uncertainties arising from macroeconomic operation and the increase in loan size.

(2) Investment Securities and Other Financial Assets

Investment securities and other financial assets consist of debt investment, equity investment, investments using funds of wealth management products, precious metals held for trading and debt securities classified as receivables. Investment securities and other financial assets was the largest component of the Bank's assets as at 31 December 2017. As at 31 December 2017 and 31 December 2016, the Bank had net investment securities and other financial assets of RMB425,372,238 thousand and RMB347,990,616 thousand, accounting for 58.8% and 64.6% of the Bank's total assets, respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017 Amount	As at 31 December 2017 % of total	As at 31 December 2016 Amount	As at 31 December 2016 % of total
Debt investments	**59,423,064**	**14.0**	45,162,404	12.9
Held-to-maturity investments	**7,778,664**	**1.9**	10,436,027	3.0
Available-for-sale debt investments	**50,638,949**	**11.9**	34,664,662	9.9
Investments in debt securities held for trading	**1,005,451**	**0.2**	61,715	0.0
Provision for impairment losses on debt investments	—	—	—	—
Equity investments	**58,250**	**0.0**	58,250	0.0
Available-for-sale equity investments	**58,250**	**0.0**	58,250	0.0
Provision for impairment losses on equity investments	—	—	—	—
Wealth management products investments	**22,507,706**	**5.3**	21,089,421	6.1
Precious metals held for trading	**13,651**	**0.0**	—	—
Debt securities classified as receivables	**343,369,567**	**80.7**	281,680,541	81.0
Wealth management products issued by financial institutions	**200,088**	**0.0**	200,088	0.1
Beneficial interest transfer plans	**346,673,345**	**81.5**	283,571,571	81.5
Provision for impairment losses on debt securities classified as receivables	**(3,503,866)**	**(0.8)**	(2,091,118)	(0.6)
Net investments	**425,372,238**	**100.0**	347,990,616	100.0

As at 31 December 2017, the Bank's investment securities and other financial assets, net amounted to RMB425,372,238 thousand, representing an increase of 22.2% from RMB347,990,616 thousand as at 31 December 2016. Such increase was primarily due to increased investment in securities and other financial assets as a result of the implementation of development strategy of the Bank's treasury business.

2. **Liabilities**

As at 31 December 2017 and 31 December 2016, the Bank's total liabilities amounted to RMB663,252,922 thousand and RMB496,165,210 thousand, respectively. The Bank's liabilities comprise (i) deposits from customers; (ii) deposits from banks and other financial institutions; (iii) debt securities issued; and (iv) financial assets sold under repurchase agreements, accounting for 51.6%, 20.3%, 13.5% and 5.9% of the Bank's total liabilities as at 31 December 2017, respectively.

The following table sets forth the composition of the Bank's total liabilities as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Deposits from customers	**342,264,228**	**51.6**	262,969,211	53.0
Deposits from banks and other financial institutions	**134,537,429**	**20.3**	131,028,453	26.4
Financial assets sold under repurchase agreements	**39,064,430**	**5.9**	35,164,192	7.1
Debt securities issued	**89,564,751**	**13.5**	30,223,286	6.1
Placements from banks and other financial institutions	**13,466,127**	**2.0**	3,866,521	0.8
Financial liabilities at fair value through profit or loss	**22,439,776**	**3.4**	20,986,772	4.2
Other liabilities [(1)]	**21,916,181**	**3.3**	11,926,775	2.4
Total	**663,252,922**	**100.0**	496,165,210	100.0

Note:

(1) Include borrowings from the central bank, derivative financial liabilities, accrued staff costs, taxes payable, interests payable and others.

(1) Deposits from Customers

The Bank provides demand and time deposit products to corporate and personal customers. The table below sets forth deposits from customers and product type as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Corporate deposits				
Demand deposits	**52,192,358**	**15.2**	52,522,396	20.0
Time deposits	**138,545,258**	**40.5**	115,711,642	44.0
Subtotal	**190,737,616**	**55.7**	168,234,038	64.0
Retail deposits				
Demand deposits	**14,276,240**	**4.2**	12,855,119	4.9
Time deposits	**137,250,372**	**40.1**	81,880,054	31.1
Subtotal	**151,526,612**	**44.3**	94,735,173	36.0
Total	**342,264,228**	**100.0**	262,969,211	100.0

As at 31 December 2017, the Bank's total deposits from customers amounted to RMB342,264,228 thousand, representing an increase of RMB79,295,017 thousand or 30.2% as compared to the end of last year. Deposits from customers accounted for 51.6% of total liabilities, representing a decrease of 1.4 percentage points as compared to the end of last year. During the Reporting Period, the increase in deposits from customers was because the Bank optimized the service channel and outlet construction while increasing its efforts in marketing customer deposits.

(2) Deposits from banks and other financial institutions

The counterparties of the Bank's deposits from the banks and other financial institutions mainly included domestic banks and other financial institutions. The following table sets out the composition of the counterparties of the Bank's deposits from the banks and other financial institutions as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Banks	**78,318,057**	**58.2**	59,893,668	45.7
Other financial institutions	**56,219,372**	**41.8**	71,134,785	54.3
Total	**134,537,429**	**100.0**	131,028,453	100.0

(3) Debts Securities Issued

On 24 January 2014, the Bank issued the tier-two capital debts with write-down terms in an aggregate principal amount of RMB1,500 million. The debts have a term of ten years and fixed coupon rate of 7.00% per annum. The Bank has an option to redeem the debts at the nominal amount on 28 January 2019.

On 26 December 2016, the Bank issued the tier-two capital debts with write-down terms in an aggregate principal amount of RMB2,500 million. The debts have a term of ten years and fixed coupon rate of 4.30% per annum. The Bank has an option to redeem the debts at the nominal amount on 27 December 2021.

On 31 December 2017, the fair value of the above payable tier-two capital debts was RMB3,961 million.

As of 31 December 2017, the Bank issued 238 interbank certificates of deposit (issued in the market which are not matured yet) in total with an aggregate amount of RMB85,569 million. On 31 December 2017, the fair value of the above interbank certificates of deposit was RMB85,370 million.

3. Shareholders' Equity

The following table sets forth the composition of the Shareholders' equity as of the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Share capital	**6,781,616**	**11.3**	6,781,616	15.8
Other equity instruments				
Including: preference shares	**9,897,363**	**16.5**	—	—
Capital reserve	**13,578,809**	**22.6**	14,240,795	33.2
Surplus reserve	**2,994,679**	**5.0**	2,101,109	4.9
General reserve	**9,818,070**	**16.3**	7,225,282	16.8
Retained earnings	**13,160,018**	**21.9**	8,686,628	20.3
Non-controlling interests	**3,934,173**	**6.4**	3,858,882	9.0
Total equity	**60,164,728**	**100.0**	42,894,312	100.0

On 27 October 2017, the Bank issued 74,800,000 Offshore Preference Shares with a par value of RMB100 at an offering price of US$20 per share. The total proceeds from the issuance of offshore preference shares amounted to RMB9,944 million and was used to replenish the Bank's other tier one capital after deducting the issuance expenses.

(III) Assets Quality Analysis

1. Breakdown of Loans by the Five-Category Classification

For the Bank, the non-performing loans are classified into loans and advances to customers of substandard, doubtful and loss. As at 31 December 2017, the non-performing loans recorded by the Bank amounted to RMB2,246,933 thousand and the Bank's total provision for impairment losses on loans to customers was RMB6,036,227 thousand. The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Pass	**207,906,403**	**96.7**	120,769,380	95.3
Special mention	**4,967,838**	**2.3**	4,582,785	3.6
Substandard	**1,470,816**	**0.7**	751,542	0.6
Doubtful	**475,259**	**0.2**	409,402	0.3
Loss	**300,858**	**0.1**	286,974	0.2
Total loans and advances to customers	**215,121,174**	**100.0**	126,800,083	100.0
Non-performing loan	**2,246,933**	**1.04**	1,447,918	1.14

As at 31 December 2017 and 31 December 2016, the non-performing loan ratios of the Bank were 1.04% and 1.14%, respectively. The Bank's non-performing loan ratio for 2017 decreased by 0.10 percentage point as compared to 2016, primarily due to the following reasons: the Bank formulated guidelines for and guided credit extension based on national policies and market conditions; continued to optimise selection requirements of industries, regions and customers and adjusted the Bank's credit asset structure; strengthened post-loan inspections and the collection of non-performing loans, effectively control the occurrence of non-performing loans, and decline in non-performing rate of the Bank as a result of the expansion of the scale of loans.

2. Concentration of Loans

(1) Concentration by Industry of Corporate Loans

The table below sets forth the breakdown of corporate loans by industry as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017 Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)	As at 31 December 2016 Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans								
Wholesale and retail trade	107,983,226	50.2	566,118	0.52	39,985,815	31.5	357,080	0.89
Manufacturing	34,526,186	16.0	986,879	2.86	37,272,136	29.4	829,449	2.23
Real estate	14,611,490	6.8	12,243	0.08	13,774,113	10.9	12,243	0.09
Leasing and commercial services	11,297,965	5.3	22,961	0.20	6,426,944	5.1	1,712	0.03
Public management and social organization	8,160,339	3.8	—	—	242,750	0.2	2,000	0.82
Education	5,573,015	2.6	1,640	0.03	3,213,742	2.5	1,640	0.05
Electricity, gas and water production and supply	2,524,672	1.2	—	—	3,822,215	3.0	—	—
Mining	2,312,522	1.1	8,282	0.36	1,801,952	1.4	8,282	0.46
Construction	2,088,328	1.0	51,744	2.48	1,647,035	1.3	4,145	0.25
Transportation, storage and postal services	1,704,719	0.8	12,070	0.71	2,802,067	2.2	8,000	0.29
Agriculture, forestry, animal husbandry and fishery	1,540,602	0.7	33,925	2.20	1,534,475	1.2	17,396	1.13
Water, environment and public utility management	1,326,750	0.6	—	—	1,352,440	1.1	—	—
Others	8,837,541	4.1	141,691	1.60	3,677,530	2.9	9,800	0.27
Discounted bills	2,472,719	1.1	—	—	41,444	0.0	—	—
Retail loans	10,161,100	4.7	409,380	4.03	9,205,425	7.3	196,171	2.13
Total	215,121,174	100.0	2,246,933	1.04	126,800,083	100.0	1,447,918	1.14

As at 31 December 2017, loans provided to customers in the industries of (i) wholesale and retail trade, (ii) manufacturing, and (iii) real estate represented the largest components of the Bank's corporate loans. As at 31 December 2017 and 31 December 2016, the balance of loans provided to the corporate customers in these three industries were RMB157,120,902 thousand and RMB91,032,064 thousand, respectively, accounting for 77.6% and 77.4% of the total corporate loans and advances granted by the Bank, respectively. From the perspective of the structure of increased volume, the three industries in (i) wholesale and retail trade; (ii) public management and social organization; and (iii) leasing and commercial services experienced the largest increment. The increased volume, and the increment were respectively as follows: RMB67,997,411 thousand, 170.1%; RMB7,917,589 thousand, 3,261.6%; and RMB4,871,021 thousand, 75.8%.

(2) Borrower Concentration

A. Indicators of concentration

Major regulatory indicators	Regulatory standard	As at 31 December 2017	As at 31 December 2016
Loan concentration ratio for the largest single customer	≤10%	**4.41%**	4.23%
Loan concentration ratio for the top ten customers	≤50%	**32.29%**	39.92%

Note: The data above are calculated in accordance with the formula promulgated by the CBRC.

B. Loans to the ten largest single borrowers

The table below sets forth the borrowing amounts of the ten largest single borrowers as of 31 December 2017. As of the same date, all such loans were classified as pass loans.

(Expressed in thousands of Renminbi, unless otherwise stated)		As at 31 December 2017	
Customer	**Industry involved**	**Amount**	**% of total loan**
Customer A	Scientific research and technical services	**2,849,000**	**1.3**
Customer B	Wholesale and retail trade	**2,100,000**	**1.0**
Customer C	Leasing and commercial services	**2,000,000**	**0.9**
Customer D	Wholesale and retail trade	**2,000,000**	**0.9**
Customer E	Wholesale and retail trade	**1,999,500**	**0.9**
Customer F	Wholesale and retail trade	**1,999,330**	**0.9**
Customer G	Wholesale and retail trade	**1,995,000**	**0.9**
Customer H	Wholesale and retail trade	**1,995,000**	**0.9**
Customer I	Real estate	**1,987,000**	**0.9**
Customer J	Leasing and commercial services	**1,920,500**	**0.9**
Total		**20,845,330**	**9.5**

(3) Distribution of non-performing loans by product type

The table below sets forth the loans and non-performing loans by product type as at the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017 Loan amount	Non- performing Loan amount	Non- performing loan ratio (%)	As at 31 December 2016 Loan amount	Non- performing Loan amount	Non- performing loan ratio (%)
Corporate loans						
Small Enterprises and Micro Enterprises	**101,147,853**	**1,076,518**	**1.06**	61,043,560	537,109	0.88
Medium Enterprises	**65,919,809**	**457,046**	**0.69**	31,158,505	430,161	1.38
Others	**35,419,693**	**303,989**	**0.86**	25,351,149	284,477	1.12
Subtotal	**202,487,355**	**1,837,553**	**0.91**	117,553,214	1,251,747	1.06
Discounted bills	**2,472,719**	—	—	41,444	—	—
Retail loans						
Personal business loans	**8,641,737**	**399,090**	**4.62**	7,896,779	191,647	2.43
Personal consumption loans	**645,395**	**7,868**	**1.22**	478,483	3,213	0.67
Residential and commercial properties mortgage loans	**747,574**	**1,002**	**0.13**	723,439	291	0.04
Credit cards overdrafts	**125,988**	**1,014**	**0.80**	106,243	539	0.51
Others	**406**	**406**	**100.00**	481	481	100.00
Subtotal	**10,161,100**	**409,380**	**4.03**	9,205,425	196,171	2.13
Total	**215,121,174**	**2,246,933**	**1.04**	126,800,083	1,447,918	1.14

The non-performing loan ratio, defined as total non-performing loans divided by the Bank's gross loans and advances to customers, decreased from 1.14% as at 31 December 2016 to 1.04% as at 31 December 2017, representing a decrease of 0.10 percentage point.

As at 31 December 2017 and 31 December 2016, the non-performing loan ratio of the Bank's corporate loans was 0.91% and 1.06%, respectively.

As at 31 December 2017 and 31 December 2016, the non-performing loan ratio of the Bank's retail loans was 4.03% and 2.13%, respectively.

(4) Overdue loans and advances to customers

The table below sets forth the aging analysis of the Bank's overdue loans and advances to customers as at the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017 Amount	As at 31 December 2017 % of total	As at 31 December 2016 Amount	As at 31 December 2016 % of total
Overdue within 3 months (inclusive)	**873,455**	**28.2**	700,660	13.7
Overdue more than 3 months to 6 months (inclusive)	**213,726**	**6.9**	2,034,531	39.9
Overdue more than 6 months to 1 year (inclusive)	**354,620**	**11.5**	1,071,518	21.0
Overdue more than 1 year	**1,653,749**	**53.4**	1,297,004	25.4
Total overdue loans and advances to customers	**3,095,550**	**100.0**	5,103,713	100.0

(IV) Analysis on Capital Adequacy Ratio

The Bank calculated and disclosed capital adequacy ratios in accordance with the relevant provisions of the Measures for Administration on Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (effective since 1 January 2015) promulgated by the CBRC. As at 31 December 2017, the Bank's capital adequacy ratios at all tiers met the regulatory requirements under such new regulation. The Bank's core tier one capital adequacy ratio was 8.44%, 1.35 percentage points lower than that as at the end of last year; the tier one capital adequacy ratio was 10.24%, 0.44 percentage point higher than those as at the end of last year; the capital adequacy ratio was 11.67%, 0.05 percentage point higher than that as at the end of last year.

The table below sets forth the relevant information of the Bank's capital adequacy ratios as at the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017	As at 31 December 2016
Total core tier-one capital		
– Share capital	**6,781,616**	6,781,616
– Qualifying portion of capital reserve	**13,578,809**	14,240,795
– Surplus reserve	**2,994,679**	2,101,109
– General reserve	**9,818,070**	7,225,282
– Retained earnings	**13,160,018**	8,686,628
– Qualifying portions of non-controlling interests	**532,382**	1,057,708
Core tier-one capital deductions		
– Other intangible assets other than land use right	**(182,643)**	(148,166)
Net core tier-one capital	**46,682,931**	39,944,972
Other tier-one capital	**9,968,347**	38,102
Net tier-one capital	**56,651,278**	39,983,074
Tier-two capital		
– Instruments issued and share premium	**4,000,000**	4,000,000
– Surplus provision for loan impairment	**3,969,198**	3,311,404
– Qualifying portions of non-controlling interests	**141,968**	86,576
– Tier-two capital deductions	**(200,000)**	—
Net capital base	**64,562,444**	47,381,054
Total risk weighted assets	**553,087,541**	407,922,931
Core tier one capital adequacy ratio	**8.44%**	9.79%
Tier one capital adequacy ratio	**10.24%**	9.80%
Capital adequacy ratio	**11.67%**	11.62%

(V) Segment Information

1. Summary of Geographical Segment

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branch that generates the income. Substantially all of the Bank's business is conducted in the PRC and the Bank classify the Bank's business in the PRC into the following three major geographical regions:

Jinzhou Region: the Bank's headquarters, Jinzhou branch, Jinzhou Taihe Jinyin Village and Township Bank Co., Ltd. (錦州太和錦銀村鎮銀行股份有限公司), Liaoning Yixian Jinyin Village and Township Bank Co., Ltd. (遼寧義縣錦銀村鎮銀行股份有限公司), Liaoning Beizhen Jinyin Village and Township Bank Co., Ltd. (遼寧北鎮錦銀村鎮銀行股份有限公司), Liaoning Heishan Jinyin Village and Township Bank Co., Ltd. (遼寧黑山錦銀村鎮銀行股份有限公司) and Liaoning Linghai Jinyin Village and Township Bank Co., Ltd. (遼寧凌海錦銀村鎮銀行股份有限公司).

Other Northeastern Region (excluding Jinzhou region): Shenyang branch, Dalian branch, Harbin branch, Dandong branch, Fushun branch, Anshan branch, Chaoyang branch, Fuxin branch, Liaoyang branch, Huludao branch, Benxi branch, Yingkou branch, Liaoning Kazuo Jinyin Village and Township Bank Co., Ltd. (遼寧喀左錦銀村鎮銀行股份有限公司), Liaoning Huanren Jinyin Village and Township Bank (遼寧桓仁錦銀村鎮銀行股份有限公司) and Bank of Jinzhou Financial Leasing Co., Ltd. (錦銀金融租賃有限責任公司).

Northern China Region: Beijing branch and Tianjin branch.

	For the year ended 31 December			
	2017		2016	
(Expressed in thousands of Renminbi, unless otherwise stated)	**Amount**	**% of total**	Amount	% of total
Operating income				
Jinzhou Region	**14,153,945**	**75.2**	11,897,713	72.5
Other Northeastern Region	**2,416,986**	**12.9**	1,760,085	10.7
Northern China Region	**2,235,061**	**11.9**	2,756,051	16.8
Total	**18,805,992**	**100.0**	16,413,849	100.0

2. Summary of Business Segment

The Bank manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Bank's most senior executive management for the purposes of resource allocation and performance assessment, the Bank defines reporting segments based on the following operating segments:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017 Amount	2017 % of total	2016 Amount	2016 % of total
Operating income				
Corporate banking	**6,207,732**	**33.0**	5,213,190	31.8
Retail banking	**1,403,570**	**7.5**	1,163,725	7.1
Treasury business	**11,172,171**	**59.4**	9,990,517	60.8
Others	**22,519**	**0.1**	46,417	0.3
Total	**18,805,992**	**100.0**	16,413,849	100.0

(VI) Off-balance Sheet Items

The Bank's off-balance sheet items include credit commitment and other off-balance sheet items. Credit commitment mainly includes bank acceptances, letters of credit, letters of guarantees, credit card commitments and loan commitments. Other off-balance sheet items include operating lease commitments and capital expenditure commitments. Acceptance bills are commitments made to the payment for a bank draft issued by the Bank's customers. The letters of guarantees and the letters of credit are issued by the Bank to guarantee the customer's contractual performance for a third party. The following table sets forth the Bank's credit commitments and other off-balance sheet items for the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**	As at 31 December 2016
Acceptances	**105,422,308**	78,222,618
Letters of credit	**21,070,234**	18,272,197
Letters of guarantees	**3,284,999**	9,446,624
Loan commitments	**3,870,216**	3,537,196
Credit card commitments	**929,182**	667,338
Subtotal	**134,576,939**	110,145,973
Operating lease commitments	**439,920**	508,552
Capital commitments	**1,022,570**	615,127
Subtotal	**1,462,490**	1,123,679
Total	**136,039,429**	111,269,652

IV. Business Overview

(I) Corporate banking

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017	2016	Rate of Change (%)
External net interest income	**5,674,718**	4,074,068	39.3
Internal net interest income	**48,976**	681,578	(92.8)
Net interest income	**5,723,694**	4,755,646	20.4
Net fee and commission income	**538,370**	397,145	35.6
Other operating (expense)/income	**(54,332)**	60,399	(190.0)
Impairment losses on assets	**(1,688,908)**	(1,201,174)	40.6
Operating expenses	**(1,601,011)**	(1,374,285)	16.5
Profit before tax	**2,917,813**	2,637,731	10.6
Depreciation and amortization	**(194,936)**	(190,417)	2.4
Capital expenditure	**341,189**	509,454	(33.0)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017	As at 31 December 2016	Rate of Change (%)
Segment assets	**207,210,217**	119,894,847	72.8
Segment liabilities	**198,695,911**	190,106,923	4.5

1. Corporate deposits

At the end of the Reporting Period, total corporate customer deposits (in local and foreign currencies) amounted to RMB190,737,616 thousand, representing an increase of RMB22,503,578 thousand or 13.4% as compared to the end of the previous year, of which, corporate demand deposits amounted to RMB52,192,358 thousand, accounting for 27.4%; corporate time deposits amounted to RMB138,545,258 thousand, accounting for 72.6%.

Revolving around deployments of China's development strategy, the Bank played the role of serving the real economy, assisted the supply-side structural reforms, implemented the regulatory guidance and adapted to the development trend of macroeconomic and financial markets. By focusing on the strategic objectives for its business development, the Bank consciously fulfilled its commitment of service with dedication and upheld the spirit of being courageous to take on social responsibilities. Financial service platforms and products were enhanced, which provided convenient and high-quality financial services to meet customer needs, and achieved rapid growth of corporate customer groups and businesses. The scale of the deposits taken by the Bank increased compared with that of last year. Structure and stability of the deposits taken by the Bank were further optimized. This was beneficial to promoting the sustainable and healthy development of the Bank.

2. Corporate loans

At the end of the Reporting Period, corporate loans of the Bank (excluding discount) amounted to RMB202,487,355 thousand, representing an increase of RMB84,934,141 thousand or 72.3% as compared to the end of the previous year.

During the Reporting Period, the Bank adhered to the concept of development that was stable and progressed and seriously implemented the national policies. Emphasis was placed on promoting the supply-side structural reforms and expanding services offering to the physical economy. The Bank actively supported the development of small and micro enterprises and the agriculture-related fields, and effectively implemented inclusive finance that developed steadily along with characteristics and differentiation goals. In the distribution of new loans to the industry, the main direction had been serving the physical economy. By leveraging on "Made in China 2025" as the guideline, the Bank promoted the transformation and upgrading of traditional industries, so as to support the development of strategic emerging industries, and revitalize the traditional industrial base in Northeast China. The Bank vigorously promoted green credit, actively supportd energy-saving emission reduction, technological upgrade, and technological innovation. More flexible credit products to support farming and agriculture were introduced to support agricultural supply side reform, and increase the support for precise poverty alleviation. The Bank offered more credit support in areas such as service industry, medical care, science and education, and consumption upgrades. Industries with excess capacity such as iron and steel gradually reduced their output, whilst the real estate industry implemented the policy for decreasing inventory so as to prevent financial risks. During the Reporting Period, loans for the wholesale and retail industries, manufacturing industry and real estate industry increased by RMB67,997,411 thousand, decreased by RMB2,745,950 thousand and increased by RMB837,377 thousand, respectively.

3. Discounted bills

During the Reporting Period, the Bank paid close attention to changes in the external situation, and actively responded to national policies. Adjustment of loan structure was tightened with comprehensively consideration on the scale of assets, liquidity, earnings and risks. At the end of the Reporting Period, discounted bills amounted to RMB2,472,719 thousand, representing an increase of RMB2,431,275 thousand as compared to the end of the previous year.

4. International business

During the Reporting Period, in respect of our international business, the Bank adhered to product innovation, launched distinctive foreign currency products such as "Youyuebao (悠悦寶)", "Shuanglida (雙利達)", "Ronghuitong (融匯通)"and "Deposit Agreements (協議存款)"by combining traditional deposit and loan products with trade financing products and financial derivative instruments, which expanded the channels of foreign currency funds. In order to adapt to the strengthening of anti-money laundering and financial supervision, we developed a new generation of international business anti-money laundering systems, and realized real-time screening and monitoring of business systems by anti-money laundering databases, and automatic intervention in suspicious businesses. We had actively promoted applications for business qualifications and successfully obtained the qualification for ordinary derivatives.

During the Reporting Period, each international business of the Bank had experienced a sustainable and steady growth. The Bank's international settlement volume amounted to US$7.499 billion, representing an increase of 13.4% as compared to the previous year; balance of foreign currencies deposits amounted to US$1.275 billion in total, representing an increase of 180.0% as compared to the end of previous year. Foreign exchange trading volume amounted to US$18.490 billion, representing an increase of 63.2% as compared to the previous year, of which, derivative transaction volume amounted to US$6.705 billion, representing an increase of 43.5% as compared to the previous year. Gold trading volume amounted to RMB8.232 billion, representing an increase of 24.3% as compared to the previous year, and had achieved good economic benefits. The network of agency banks covered over 70 countries and regions and the number of agency banks reached 517.

(II) The "Three Basis & Three Smalls (三基三小)" Business

1. Overview of the "Three Basis & Three Smalls" business

During the Reporting Period, the Bank continued adhering to the market positioning based on "Three Basis & Three Smalls (三基三小)" ("Three Basis" means "basic accounts, basic customer base and basic settlement volume" and "Three Smalls" means "small enterprises, small shops and small retail stalls"). Based on the objectives of "regulatory management, risk prevention and control, structural adjustment, expansion of customer base, online deployment", various tasks of "Three Basis & Three Smalls" proceeded steadily. At the end of the Reporting Period, the "Three Smalls" loan balance of the Bank amounted to RMB9,728,701 thousand, number of customers of "Three Smalls" loans amounted to 11,127 accounts, representing 89.3% of the accounts of total loans (excluding subsidiaries). The "Three Basis" business maintained its good development momentum. The number of settlement accounts amounted to 72,100 accounts, representing an increase of 7,800 accounts as compared to the end of the previous year. The basic settlement volume amounted to 50.64 million, representing an increase of 1.66 million from the end of the previous year. The coverage of integrated financial services for "Three Smalls" customers was increasing continuously.

2. Measures for developing the "Three Basis & Three Smalls" business

(1) Optimizing credit asset structure. According to the national industry industrial policy adjustment and macroeconomic development direction, the "Three Smalls" business credit guidelines were developed to give priority to the development of inclusive financial services, to utilize the role of business authorization, to guide the direction of the development of new "Three Smalls" business and to continue to exit from high risk and low performing guarantee services such as joint guarantee, mutual insurance, and offsite guarantee. At the end of the reporting period, the balance of "Three Smalls" consumer loans was RMB1,283,325 thousand, up by 42.8% from the end of the previous year. The amount of pledged loans increased by 3.6% compared to the end of last year. The coverage of pledged loans reached 79.2%, which reduced the default loss rate and increased risk mitigation.

(2) Strengthening risk management and control ability comprehensively. According to the level of risk management of its institutions, the Bank achieved authorization management of dynamic business, implemented the hierarchical management of asset quality, set objectives of control, conducted multi-dimensional performance appraisal.The Bank set the additional incentive conditions of the quality of asset to enhance control efforts on the basis of total control. The Bank refined the monitoring indicators, increased the frequency and dimension of asset monitoring, improved the risk prevention and control efficiency, To strengthen post-lending risk management, we will try to design a risk warning model for big data technology and embed it in business systems to form a long-term mechanism for risk control. Post-lending risk management were strengthened and we will try to design a risk warning model for big data technology and embed it into business systems to form a long-term mechanism for risk control.

(3) Layout with theme of technology and finance. Product innovation to expand access for customers. The Bank's "Mobile Lending" project was launched, which promoted the upgrade and optimization of the system and handled the whole process of "Three Smalls" credit business. The Bank integrated online loan application channels such as mobile banking, online banking, WeChat banking and official website to optimize customer experience. The Bank launched "Group-buying/Takeaway Loans" and "Consumer Installment Loans" to fulfill needs of customers under different consumption scenarios. The Bank developed "Salary Loans" and "VIP Credits" products to fulfill customers with bulk quality deposits, which increased cross-selling rates, and lay out strategies for online and offline customers at the same time. Product scale was expanded with batch operations. The Bank commenced coopration with WeBank, Ants, Tencent and other third-party platforms on trial basis. The Bank explored online consumer finance through preliminary design of micro-lending, micro-car loans, micro-loan, and other products. By relying on customer relationship management system (CRM system) to accumulate data within the industry, the Bank applied big data analysis technology and provided business support to grant existing customer with further credits and potential customer with new credits.

(4) Localization of credit technology of "Three Smalls". The Bank fully combined the small micro-credit technology in German with the business experience of the Bank and extracted the "quantitative verification" and "restore of statements" as the core of the credit technology of "Three Smalls". Supported by the credit materials of "Three Smalls", the Bank implanted the key points of technology, consolidated the technocial support to the business operations to provide technical support, comprehensively improving the customer manager's capacity in the business of "Three Smalls".

(III) Retail Banking Business

During the Reporting Period, the Bank focused on customer needs in respect of the retail banking business and carried out a series of product innovation, channel innovation and service enhancement to solidify customer base, expand business scale, increase business revenue, resulting in significant improvement in single-outlet capacity.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017	2016	Rate of change (%)
External net interest expense	**(4,483,138)**	(2,090,265)	114.5
Internal net interest income	**5,751,527**	3,086,639	86.3
Net interest income	**1,268,389**	996,374	27.3
Net fee and commission income	**135,627**	167,230	(18.9)
Other operating (expense)/income	**(446)**	121	(468.6)
Impairment losses on assets	**(67,049)**	595	(11,368.7)
Operating expenses	**(795,359)**	(599,406)	32.7
Profit before tax	**541,162**	564,914	(4.2)
Depreciation and amortization	**(96,938)**	(83,720)	15.8
Capital expenditure	**169,665**	223,989	(24.3)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017	As at 31 December 2016	Rate of change (%)
Segment assets	**10,676,142**	9,325,590	14.5
Segment liabilities	**170,395,089**	100,056,009	70.3

1. Retail Deposits

During the Reporting Period, the Bank offered a more flexible personalized product to retail customers in the fixed-rate floating range. The Bank launched the pre-interest savings product of "Lixiande (利先得)" and maximized customer returns through product mix to attract more customers and more stable deposit. While developing and promoting new products, the Bank introduced new marketing approaches through the rich and colorful marketing activities to go into the market, explore and meet customer needs, enhancing customer stickiness. At the end of the Reporting Period, the balance of the Bank's retail deposits amounted to RMB151,526,612 thousand, representing an increase of RMB56,791,439 thousand, or 59.9% as compared to the end of the previous year. The retail deposits showed a rapid growth momentum.

2. Retail Loans

During the Reporting Period, the Bank strengthened marketing for retail loans. Considered the group customer and batch customer as the highlight, the Bank transformed its business towards batch business, focused on the development of consumer loans, resident and commercial mortgage loans and poverty alleviation loans; the Bank broadened the scope of consumer loan use, increased new consumer loan use on education, study, wedding, tourism and others. It launched exclusive consumer credit products for "Three Smalls""Conveient and Easy Loan (捷易貸)", "green credit (環保貸)" which was based on supply lines, and for "Salary Loan (工薪易貸)" and "VIP credits (貴賓客戶授信)" which were based on the internal data. The acquisition of internal customers was enhanced. At the end of the Reporting Period, retail loans comprising personal business loans, personal consumption loans, residential and commercial mortgage loans, credit card overdrafts amounted to RMB10,161,100 thousand, of which personal business loans amounted to RMB8,641,737 thousand, personal consumption loans amounted to RMB645,395 thousand and residential and commercial mortgage loans amounted to RMB747,574 thousand.

At the end of the Reporting Period, the total amount of credit card facilities of the Bank amounted to RMB1,054,950 thousand, increased by RMB281,330 thousand or 36.4% as compared to that at the end of last year.

3. Bank Cards

The Bank continued to improve the bank card product flow, strengthen standardized management, and pay attention to risk management and control. The functions of financial IC card products were continuously optimized. The functions of expressway ETC business continued to be optimized, whilst convenient payment functions such as small amount signature free payment and mobile payment were launched. This had provided customers with a more efficient and safe payment experience. The functions of credit card products continued to improve with 7777 Platinum credit cards being launched and targeting high-end customers. The official account for "Jinzhou Bank 7777 Credit Card" was launched on WeChat successfully. On the basis of Jingdong Payment, Alipay, Tenpay, the Bank successfully engaged in businesses such as Baidu wallet payment and Lakala offline repayment. The integrated credit review platform officially commenced operation, which effectively improved the efficiency of credit card issuance. The comprehensive competitiveness of various types of bank card products were enhanced. At the end of the Reporting Period, the number of debit cards issued by the Bank amounted to 5,463.7 thousand, representing an increase of 11.7% as compared to the end of last year; while the number of credit cards issued by the Bank amounted to 56,265, representing an increase of 38.5% as compared to the end of last year.

4. **Wealth Management**

The Bank was dedicated to focusing on customers, and continued to enhance professional wealth management services and increase efforts in promoting the private bank brand. During the Reporting Period, on the basis of the regular issuance of four terms of capital guarantee wealth management products, i.e. one month, three months, six months and one year, the Bank newly added two-year and three-year products to satisfy needs of more customers. The wealth management products recently launched targeting new customers and salary card customers, which enabled the product competitiveness of the Bank to further enhance and market share was further consolidated. During the Reporting Period wealth management products issued by the Bank amounted to RMB98.430 billion. At the end of the Reporting Period, the Bank had a wealth management products size of RMB61.907 billion. According to relevant regulatory requirements, all the sales branches of products of the Bank implemented the system of sales in specific areas as well as sound recording and video recording for wealth management products.The Bank has registered 122 branches for business of agency sale of funds and 109 branches for business of agency sale of insurances with regulatory institutions. At the end of the Reporting Period, the number of retail customers amounted to 5.1942 million, representing an increase of 352,800 or 7.3% compared with the end of last year. The number of VIP customers amounted to 170,600, representing an increase of 51,800 or 43.6% compared with the end of last year, of which Gold class customers, Violet Gold class customers, Platinum customers, and Black Gold class customers amounted to 114,138, 47,641, 7,830, and 985, respectively.

(IV) Treasury Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December **2017**	2016	Rate of change (%)
External net interest income	**17,341,344**	13,464,406	28.8
Internal net interest expense	**(5,800,503)**	(3,768,217)	53.9
Net interest income	**11,540,841**	9,696,189	19.0
Net fee and commission income	**62,677**	244,890	(74.4)
Net trading gains	**(278,264)**	49,948	(657.1)
Dividend income	**640**	895	(28.5)
Net gains arising from investment securities	**30,796**	10,348	197.6
Other operating expense	**(184,519)**	(11,753)	1,470.0
Impairment losses on assets	**(1,685,215)**	(1,583,849)	6.4
Operating expenses	**(726,812)**	(783,854)	(7.3)
Profit before tax	**8,760,144**	7,622,814	14.9
Depreciation and amortization	**(88,583)**	(107,056)	(17.3)
Capital expenditure	**155,043**	286,423	(45.9)

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**	As at 31 December 2016	Rate of Change (%)
Segment assets	**494,839,182**	400,735,204	23.5
Segment liabilities	**285,754,251**	201,562,894	41.8

1. **Money Market Transactions**

During the Reporting Period, interbank market supervision was tightened, monetary policy changed from neutral to stable and neutral, and market liquidity remained tightly balanced. By prioritizing liquidity safety, the Bank took into account historical experience and market condition and fully studied the trend of interest rates, adopted flexible financing structure allocation, strived to reduce the financing costs and enhanced our profitability. At the end of the Reporting Period, the balance of our financial assets held under resale agreements was RMB3,573 million, the balance of financial assets sold under repurchase agreements was RMB39,064 million.

2. **Investments in Securities and Other Financial Assets**

During the Reporting Period, "deleveraging and risk prevention" had become the important goals of monetary policy. Factors affecting the bond market of the PRC have become increasingly complicated and economic fundamentals, fund levels, financial supervision, exchange rate, overseas market, bond market participant structure and product trading chain always affected bond market participants' emotion and transaction pattern.

The Bank paid close attention to changes in the policy environment, further strengthened the analysis and research of the financial market, and timely adjusted the operation strategies. In the premise of ensuring risk prevention, the Bank reduced the duration of debt holding and controlled the leverage ratio of bond investment in order to ensure the liquidity and security of bond investment portfolio. While reducing repurchase financing capital by taking various measures, the Bank selectively allocated some bond assets with relatively suitable maturities and yields, realizing the overall stable growth of the bonds volume, the expected bond holding structure had been sustained and no credit risk occurred.

(1) Securities investment by holding purpose

(Expressed in thousands of Renminbi,unless otherwise stated)	**As at 31 December 2017**		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Financial assets at fair value through profit or loss	**23,526,808**	**5.6**	21,151,136	6.1
Available-for-sale financial assets	**50,697,199**	**11.9**	34,722,912	10.0
Held-to-maturity investment	**7,778,664**	**1.8**	10,436,027	3.0
Debt securities classified as receivables	**343,369,567**	**80.7**	281,680,541	80.9
Total	**425,372,238**	**100.0**	347,990,616	100.0

(2) Securities investment by remaining maturity

(Expressed in thousands of Renminbi,unless otherwise stated)	**As at 31 December 2017**		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
Indefinite	**556,597**	**0.1**	58,250	0.0
Repayment on demand	—	—	1,926,545	0.6
Within three months	**41,397,355**	**9.7**	32,047,295	9.2
Between three months and twelve months	**94,996,281**	**22.4**	87,264,452	25.1
Between one year and five years	**278,978,328**	**65.6**	216,482,034	62.2
More than five years	**9,443,677**	**2.2**	10,212,040	2.9
Total	**425,372,238**	**100.0**	347,990,616	100.0

(3) Holding of state bonds

At the end of the Reporting Period, the balance of nominal value of the state bonds held by the Bank amounted to RMB4.260 billion. The table below sets out the top ten state bonds with the highest nominal value held by the Bank at the end of the Reporting Period.

Name of the bond (Expressed in thousands of Renminbi, unless otherwise stated)	Nominal value	Interest rate per annum (%)	Maturity date
12 Coupon-bearing Bonds 10	1,540,000	3.14	7 June 2019
12 Coupon-bearing Bonds 09	1,000,000	3.36	24 May 2022
17 Coupon-bearing Bonds 04	420,000	3.40	9 February 2027
08 State Bonds 25	330,000	2.90	15 December 2018
06 State Bonds 19	300,000	3.27	15 November 2021
09 Coupon-bearing Bonds 16	250,000	3.48	23 July 2019
09 State Bonds 03	220,000	3.05	12 March 2019
09 Coupon-bearing Bonds 20	100,000	4.00	27 August 2029
09 Coupon-bearing Bonds 12	70,000	3.09	18 June 2019
16 Coupon-bearing Bonds 07	30,000	2.58	14 April 2021

(4) Holding of financial bonds

At the end of the Reporting Period, the balance of nominal value of the financial bonds (mainly the financial bonds issued by policy banks) held by the Bank amounted to RMB43.630 billion. The table below sets out the top ten financial bonds with the highest nominal value held by the Bank at the end of the Reporting Period.

Name of the bond (Expressed in thousands of Renminbi, unless otherwise stated)	Nominal value	Interest rate per annum (%)	Maturity date
16 Nong Fa 20	5,000,000	2.79	27 July 2019
16 Nong Fa 15	4,500,000	3.08	22 April 2019
17 Nong Fa 07	3,260,000	3.98	19 April 2020
17 Jin Chu 07	2,850,000	4.37	15 May 2020
16 Jin Chu 01	2,000,000	2.82	22 Feburary 2019
16 Jin Chu 07	1,500,000	2.76	11 July 2019
16 Jin Chu 13	1,500,000	2.80	7 November 2019
16 Nong Fa 02	1,500,000	2.77	6 January 2019
17 Jin Chu 05	1,500,000	3.89	10 April 2020
17 Nong Fa 02	1,500,000	3.54	6 January 2020

3. Wealth Management Business

At the end of the Reporting Period, the balance of the Bank's effective wealth management products amounted to RMB61.907 billion, representing an increase of RMB938 million as compared to the end of the previous year, of which, the balance of capital guarantee wealth management products amounted to RMB35.401 billion (including structural deposits), whilst the balance of non-capital guarantee wealth management products amounted to RMB 26.506 billion. During the Reporting Period, the Bank issued a total of 816 wealth management products, amounting to RMB98.430 billion. 842 wealth management products of the Bank matured with an amount of RMB97.492 billion. All matured products realized expected yields without complaint event from customers. While maintaining stable product yields and the expansion of scale, the Bank strove to make breakthrough in asset structure and product innovation to meet customers' diversified wealth management demand. On the basis of the four former "Jinxiu (錦繡)", "Chuangying (創贏)", "Chuangfu (創富)" and "Tiantianshang (天天上)"primary series wealth management products, we completed internal online testing of "Chuangxin (創鑫)", which is net worth wealth management products. During the Reporting Period, our wealth management business recorded stable profit growth with increasingly improved investment channels, a more rational investment mix and wider product varieties, which had built up a good "7777 Wealth Management" bond image.

In terms of asset allocation, the Bank strictly complied with the relevant regulations of the regulatory authorities and performed well in the management of non-standard asset allocation. At the end of the Reporting Period, the total amount of non-standard asset allocations reached RMB15.870 billion, which accounted for 25.64% of the investment balance of wealth management product and 2.94% of total assets at the end of 2016, all meeting regulatory requirements.

In July 2017, the Bank won the "2017 China City Commercial Bank (China Rural Commercial Bank) Wealth Management Brand Jun Ding Award" and "2017 China Wealth Management Banking Products Jun Ding Award – Stable Income Type".

On 15 December 2017, the Bank once again won again the award for "Excellent Asset Management Bank" in the "2017 China Financial Development Forum and the 8th Jinding Award" organized by the Daily Economic News.

4. Interbank Business

The Bank gave full play to the advantages of a professional management system and a talent team in further strengthening market awareness and compliance awareness. Distribution of interbank liabilities, interbank investment and bill trading business was rationalised, whilst asset securitization and bond issuance were actively conducted. At the end of the Reporting Period, our deposit with banks and other financial institutions amounted to RMB9,617,694 thousand, and our deposits from banks and other financial institutions amounted to RMB134,537,429 thousand. At the end of the Reporting Period, the Bank had 238 tranches of interbank certificates of deposits issued and not yet matured, the total amount of balance was RMB85.569 billion. During the Reporting Period, the Bank successfully accessed the China Bills Trading System and enhanced its market influence over the bills business.

5. Investment banking business

During the Reporting Period, the Bank closely monitored the changes in the economic environment and the market and actively responded to and implemented the relevant national policies. The structure of investment banking business was optimized, and we actively carried out the application for intentional qualifications in underwriting activities. The Bank obtained the intentional qualification of underwriting bookbuilder issued by the Dealers Association. The Bank will use this as an opportunity to actively conduct bond underwriting business, enrich product categories of investment bank, and expand the scope of investment business. At the end of the Reporting Period, the carrying amount of investment receivables conducted by the Bank amounted to RMB343.370 billion.

(V) Distribution Channels

1. Physical Outlets

The development of the Bank's institution complied with the strategic guidance principle, the risk control principle, the market-oriented principle and the distinctive operation principle, with the basic premise of matching cross-regional development speed with self-management and control ability. The Bank scientifically mastered cross-regional development speed and pace, adhered to healthy development and achieved coordinated development of "scale, quality, benefit". At the end of the Reporting Period, we (excluding subsidiaries) had a total of 207 outlets. In addition to headquarters, we had, in total, 15 branches, 185 sub-branches, 3 micro sub-branches, 2 community branches and 1 specialized institution. The outlets were distributed mainly over provinces and cities such as Beijing, Tianjin, Harbin and Liaoning.

2. Self-service Banking

At the end of the Reporting Period, we (excluding subsidiaries) had a total of 127 self-service banking and self-service zones, representing an increase of 14 as compared to the end of the previous year. We (excluding subsidiaries) had a total of 760 self-service machines, including 558 ATMs, representing an increase of 80 as compared to the end of the previous year. The accumulative number of transactions amounted to 10.2962 million, and the transaction volume amounted to RMB14.230 billion. There were 114 multi-media enquiry machines, representing an increase of 8 as compared to the end of the previous year. The accumulative number of transactions amounted to 500 thousand. There were 88 automatic card issuing machines, representing an increase of 37 as compared to the end of the previous year. The accumulative number of transactions amounted to 36,860.

To further enrich the Bank's self-service function and improve customer's satisfaction and experience, the Bank added a non-access function, Apple Pay payment, self-service refunded card and cancellation of ATM transfer within 24 hours. Meanwhile, the self-service card machine was added new functions of detailed inquiries, information maintenance, contracting of telephone banking, contracting of online banking, contracting of "Dinghuobao (定活寶)" and activation of credit card.

During the Reporting Period, the Bank entered a new era of "Cash Withdrawal by Face Recognition at ATM". By relying on face recognition and finger vein recognition technologies, "Cash Withdrawal by Face Recognition at ATM" realized signing and release of contracts through face recognition, and cash withdrawl by face recognition. There is no need to hold a bank card and ID card when withdrawing cash. One can easily handle cash withdrawals transactions through face recognition and finger vein recognition on site.

During the Reporting Period, the Bank launched its first intelligent robot "Jinhang (錦行)". "Jinhang (錦行)" relies on rich digital media, human-computer interaction and other technologies to realize customer face recognition. It has more than ten interactive features including business guide, product introduction, self-service voice consultation, welcome interaction, multiple expressions, semi-automatic charging and remote control. With its powerful system of perception, interaction, and semantic analysis, "Jinhang (錦行)" can easily complete interactive chats with customers. The intelligent robot will comprehensively improve the efficiency and technology of the Bank's smart network services, and provide customers with a full range of human-computer interaction service models.

During the Reporting Period, the Bank introduced the Smart Teller Machine and opened a new chapter in the intelligent transformation of outlets. The Smart Teller Machine is a new type of smart device that integrates multiple self-service equipment functions. It is an integrated intelligent product created by the Bank based on enhancing customer experience and speeding up the intelligent transformation of outlets. The operation model of "Lobby Manager Guidance, Customer Self-Service, and Accurate Review at Back Office" was adopted to enable customers to experience the services brought about by technological innovation and process change, and capitalizing on the core role taken up by services and sales through outlets to the maximum extent. The Bank will continue to enrich and improve the business types and functions of the ATMs, expand the coverage of non-cash services, so as to provide better services to customers.

During the Reporting Period, the "Bank Rail Connect (銀鐵通)" equipment project, which was a joint cooperation between the Bank and Beijing Railway System, was successfully launched. "Bank Rail Connect (銀鐵通)" equipment is an original multi-functional teller equipment that integrates bank cash ATMs with ticket reservation and collection functions. It can provide traditional self-service cash function, and also functions such as ticket collection and ticket sales for railway tickets. At the end of the Reporting Period, the Bank had successively deployed 58 "Bank Rail Connect (銀鐵通)" equipment at major ministries, state agencies, universities, and key business districts in Beijing. The launch of "Bank Rail Connect (銀鐵通)" further promoted the development of welfare work and provided more convenience for the people's life.

3. Electronic Banking

During the Reporting Period, the Bank focused on the three major elements of "finance, technology, and life", which applied the characteristics of financial services as the starting point. By focusing on business innovation through financial technology, the breadth and depth of e-banking business were expanded in many ways, at multiple levels, and from different channels. This had effectively enhanced the core competitiveness of electronic banking products. The Bank received the "Best Commercial Internet Banking Innovation Award 2017" and "2017 Network Payment/Mobile Payment Outstanding Case Promotion Value Award".

(1) Online banking

The Bank further improved its online banking product system, optimized business processes, and effectively improved service efficiency and user experiences. A total of 9 products, including "Youyuebao (悠悦寶)", "Lingcunbao (零存寶)", "Huoqibao (活期寶)", time deposit with auto interest payment, and deposit certificates of substantial amounts were launched. Full coverage of counter intelligent savings products was materialized. Online sales of open, closed-end financial management and financial management products for market opening and closing were completed. Customers can easily complete the purchase and applications online. Online tax payment function was introduced, which provided taxpayers with convenient tax payment services and achieved tax payment "without leaving home" for taxpayers. Account details query function were improved, which enhanced the efficiency of account query and verification for enterprise customers. The Bank had optimized the bills exchange service of online banking electronic business, which made the telegraphic transfer service more quality and convenient.

At the end of the Reporting Period, the Bank had 278,800 online banking customers in aggregate, representing an increase of 21.5% compared with last year. During the Reporting Period, the transaction amount reached RMB 2,522.007 billion, representing an increase of 37.1% year on year, whilst the number of transactions amounted to 9,214,300, representing an increase of 57.2% year on year.

At the end of the Reporting Period, the Bank had 249,229 personal online banking customers in aggregate, representing an increase of 20.7% compared with last year. During the Reporting Period, the transaction volume of the Bank amounted to RMB212.324 billion, representing an increase of 14.9% year on year; the number of transactions was 6,982,000, representing an increase of 64.6% year on year.

At the end of the Reporting Period, the Bank had 29,597 corporate online banking customers in aggregate, representing an increase of 29.5% compared with last year. During the Reporting Period, the transaction volume of the Bank amounted to RMB2,309.684 billion, representing an increase of 39.6% year on year; the number of transactions was 2,232,400, representing an increase of 37.7% year on year.

(2) Mobile Banking

The Bank firmly captured the new thinking, new technologies and new opportunities brought by mobile finance, which continuously changed the service forms and connotations of mobile banking, in order to better fulfill the needs of customers. Mobile Banking had successfully launched financial services such as banking medical services, smart deposits, personal self-service revolving loans, heat supply payments, and credit cards, which practices inclusive finance in the form of serving the public. WeChat Bank launched savings products and wealth management products, which enriched investment channels for customers online. At the same time, the Bank fully tapped the marketing potential of WeChat Bank, which strengthened advertising and investment. A new model of online and offline joint marketing was achieved, thereby further enhancing the brand influence of the Bank. At the end of the Reporting Period, we had 222,864 mobile banking customers in aggregate, representing an increase of 54.9% compared with last year. During the Reporting Period, the transaction volume amounted to RMB25.195 billion, representing an increase of 30.2% year on year; the number of transactions was 1,970,800, representing an increase of 16.3% year on year. WeChat Banking had 97,153 customers in aggregate, representing an increase of 87.1% year on year. During the Reporting Period, the transaction volume amounted to RMB2.113 billion, representing an increase of 206.2%. The number of transactions was 220,800, representing an increase of 4.6% year on year.

(3) Telephone Banking

We offer business consultation and transaction service round-the-clock for customers through our national customer service hotline "+86-400-66-96178". At the same time, through on-line security locks, password-free for small amount transaction, cancellation of ATM transfer within 24 hours, and enquiry and loss reporting of foreign currency deposit receipts. This had provided a high-risk transaction blocking strategy for telephone banking transactions, which further protected the safety of customers' funds dealt through telephone banking and enhanced the security of transactions conducted through telephone banking.

(4) Unified payment platform over Internet

The Bank relied on the efficient and fast settlement capabilities of the payment platform and intensively explored different aspects of payment scenarios. By using the "Smart Financial" approach to solve the weakness in the scenarios, the fund settlement needs of the customers were fulfilled comprehensively and in-depthly, thereby enhancing the payment convenience of the Bank's customers. Smart campus service, taxi management fee payment service, integrated QR code collection products and UnionPay QR code product were launched. At the same time, through the continuous linkup with quick payment methods such as Alipay, WeChat, Apple Pay and other quick payment methods, the diversified payment needs of customers were met sufficiently. At the end of the Reporting Period, a total of 82,531 personal members were registered on the payment platform, and 50,480 new users were added this year. During the Reporting Period, the payment platform of the Bank accumulated a total of 6.5675 million transactions and the transaction amount reached RMB238 million.

(5) E-commerce Platform

The e-commerce platform of the Bank was based on quality retailers, which fully integrated online and O2O (Online to Offline, the integration of online and offline) selling models. Endeavours were used to create a B2C (Business to Customer, the e-commerce model of enterprises to customers) sales platform that integrates capital flow, information flow, and logistics. At the same time, the e-commerce business was integrated with the e-banking business. The value of online traffic was acquired through the cross-certification of mobile banking, WeChat banking and e-commerce platforms. At the end of the Reporting Period, the number of personal members registered on the e-commerce platform amounted to 68,672 in aggregate, with 37,465 being newly added during this year. There were 229 merchants registered on the platform.

(6) Safe Risk Control

On the basis of strengthening the system construction, the Bank achieved a full upgrade of security risk control work through financial and scientific methods, and promoted the compliance development of e-banking business. Mobile banking online dynamic token authentication, account set security locks and other functions had provided a higher level of security for account and fund security. The anti-fraud and risk control system of e-banking business finally commenced operation, which conducted real-time monitoring of online transactions and blocked suspicious transactions, thereby effectively improving the risk management of e-banking business.

(VI) Information on the Subsidiaries

1. Village and Township Banks

During the Reporting Period, we had invested in 7 village and township banks, 5 in Jinzhou City, Liaoning Province, the PRC, 1 in Chaoyang City and 1 in Benxi City. At the end of the Reporting Period, the total assets of 7 village and townships banks were RMB7,520,789 thousand, the net loans and advances granted were RMB4,133,772 thousand, representing an increase of 23.8% as compared to the end of last year, the total deposits were RMB6,374,909 thousand, representing an increase of 39.4% as compared to the end of last year. Net profit amounted to RMB31,607 thousand.

The Bank funded and set up village and township banks by actively adhering to the Group's general development strategies and operating guidelines of "change in mode, adjustment to structure, control over risk, stabilizing of development". For the purpose of "basing on urban and rural areas, supporting small and micro enterprises, serving agriculture, rural area and farmers, benefiting the common people", the Bank proactively adapted to the new normal and constantly reinforced new strenghs to improve the corporate governance structure and level, with the guiding concept of "compliance with the laws and regulations is the footstone of our operations" and upholding the principle of coordinated development of "scale, quality, efficiency". In addition, the Bank enlarged the brand effect of "Jinyin village and township banks", which increased the influence and competitiveness of "Jinyin village and township banks". We understand the market positioning of "supporting agriculture and small and micro enterprises", and orienting at market, centering on customers and taking innovation as a driving force, pay attention to "Three Bases & Three Smalls (三基、三小)" to solidify bases for development, enhance operation and management, and focus on deposit and loan marketing. We aim to better provide financial services to general urban and rural customers with first-class management, team and environment, and devote to building "Jinyin village and township banks" into "model" village and township banks with regulated management, orderly operation, controllable risks, innovation driving and organic growth that have the characteristic of serving "agriculture, rural areas and farmers" and relatively strong competitiveness.

2. Bank of Jinzhou Financial Leasing Co., Ltd.

Since the establishment of the Bank of Jinzhou Financial Leasing Co., Ltd. ("BJFL"), it had always adhered to the regional development strategy of "setting a foothold in Liaoning and expanding across the country". The company strictly insisted in pursuing progress steadily in order to support the development of the real economy and promote the optimization and adjustment of the industrial structure. With an objective to support the development of small, medium and micro enterprises, the company actively served the major national strategies such as the "One Belt and One Road" initiative, the coordinated development of Beijing, Tianjin and Hebei, the "Made in China 2025", and revitalizing the traditional industrial base in Northeast China. It has achieved remarkable results in terms of asset size, accumulative investment delivery, and business innovation models. The leasing investment customers are mainly spread over aviation, health care, equipment manufacturing, automobile manufacturing, infrastructure construction, etc. At the end of the Reporting Period, the total leasing assets of BJFL amounted to RMB7,146,419 thousand, of which the balance of financial lease receivables amounted to RMB6,840,341 thousand, with realized net profit of RMB141,470 thousand during the Reporting Period.

In future, BJEL will continue to pursue its regional development strategy of "setting a foothold in Liaoning and expanding across the country". In accordance with the basic principles of "safety, liquidity, and profitability", a professional staff team will be established. On the basis of continuously improving risk management and control capabilities and refined management, we will define customer positioning, strengthen market expansion, and strengthen product innovation. The establishment of a capital-saving type development model that is sustainable, healthy, and sound. The Bank has a financial leasing company with a clear variety of businesses and a reasonable service distribution in the industry, thereby achieving professionalism, specialization, and differentiated development.

(VII) Information Technology

During the Reporting Period, the Bank carried out a series of work on internal management, infrastructure, information security and system construction, and achieved certain results. In respect of internal management, the Bank promoted project controls and outsourcing risk management system, established the configuration management system and comprehensive management system standards, introduced "Kanban approach" to promote efficiency of the development team. In respect of infrastructure, the Bank focused on projects including the core network system upgrade, the establishment of SVC storage platform (storage area network controller), disaster preparedness system expansion and public internet security management system construction. In respect of information security, the Bank focused on the mobile client security reinforcement construction, database audit system, the core system security reinforcement and core network security isolation in the region and optimizing the operational monitoring system. In respect of system construction, the Bank established over 20 systems, including the regulatory data standardization system, equity management system, deposit pricing system, bad assets management system, fund business system, comprehensive charging system, bills management platform and so on; and the Bank upgraded and reconstructed over 30 existing systems including the core business system, credit management system, electronic channels, the Internet finance and so on. The Bank continuously developed and improved various featured products to meet the needs of business expansion.

V. Risk Management

The Bank has exposure to the following risks from its use of financial instruments: credit risk, operational risk, market risk and liquidity risk.

The Bank's risk management policies were established to identify and analyze the risks to which the Bank is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The internal audit department undertakes both regular and ad hoc reviews of the compliance of internal control system implementation with risk management policies.

(I) Credit risk

Credit risk refers to the risk that a customer or counterparty may be unable to or unwilling to meet its contractual obligations. The core to the Bank's credit risk management system mainly includes the formulation of credit policies, pre-credit due diligence, customer credit rating, collateral assessment, loan review and approval, loan disbursement management, post-loan management, non-performing loan management, and accountability. The Bank adopts the same credit risk management control procedures for on and off-balance credit business.

The Bank's risk and compliance department is responsible for continuous monitoring, review and evaluation of the adequacy and effectiveness of the Bank's credit risk management system, gives advice for the improvement of the Bank's credit risk management system and develops and maintains the rating and limit tools. The Bank's post-credit management department is responsible for the determination of five-category loan assets. The Bank's lending-in-progress management department is in charge of the improvement of the Bank's credit review system and operating procedures. The unified credit management department is responsible for formulation of limit management and convening meetings of Credit Approval Management Committee under the Bank's headquarters. All of the Bank's credit business activities must be carried out according to the guiding opinions on the credit business.

With respect to the credit risk control and management, the Bank specifies the respective duties and operating procedures of each department according to the principle of credit investigation and credit approval separation, management and review separation, and credit limit and review separation. The Bank has established the operating mechanism of the Credit Approval Management Committee under the collective review system, as well as a credit due diligence and accountability system.

(II) Operational risk

Operational risk refers to, in the process of operation and management, the risk resulting from imperfect governance structure of the legal persons, unsound internal control system, deviation of operational procedures and standards, violation by business personnel of procedural requirements and the failure by the internal control system to effectively identify, warn and prevent non-compliance and improper operation. The Bank's risk and compliance department is responsible for conducting continuous monitoring, inspection and assessment of the adequacy and effectiveness of the Bank's operational risk management system, putting forward improvement proposals and carrying out risk review of various risk management and internal control systems.

(III) Market risk

Market risk refers to the risk of losses that the Bank may suffer in the Bank's on/off-balance-sheet business as a result of unfavorable changes in market prices, including interest rates, exchange rates, stock prices and commodity prices.

The Bank's exposure to the market risk arises primarily from the Bank's assets and liabilities on the balance sheet, and mainly includes interest rate risk and exchange rate risk. Interest rate risk is the risk of loss that the Bank may suffer the adverse movements in statutory interest rates or market interest rates. Exchange rate risk is the risk of loss that the Bank may suffer from the mismatches of the currency denomination of the Bank's assets and liabilities. The Bank's market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within acceptable limits and maximize the Bank's risk-adjusted income. The Bank's risk and compliance department is responsible for monitoring, inspecting and assessing the adequacy and efficiency of the Bank's market risk management system. The capital transaction department, interbank department, financial management department and international business department are responsible for the centralized management of interest rate risks and exchange rate risks.

1. Interest rate risk

Interest rates in China have been gradually liberalized in recent years. The interest rate risks have gradually changed from policy risks to market risks, and have become one of the major risks for bank operations. The interest rate risk is mainly reflected by the Bank's exposure to overall revenue and economic value losses as a result of unfavourable changes in key elements such as interest rate and duration structure of various interest-earning assets and interest-bearing liabilities of the Bank.

The finance management department is responsible for identifying, measuring, monitoring and managing interest rate risk. The Bank regularly performs assessment on the interest rate sensitivity of the repricing gap and impact on the net interest income and economic value results from the changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on the net interest income and the economic value caused by interest rate volatility.

The Bank classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Bank's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses.The Bank mainly analyses the interest rate risk of bank accounts.

The Bank has adopted, including but not limited to, re-pricing gap analysis, duration analysis, net interest income simulation and economic value simulation for the measurement of interest rate risk. The interest rate risk measurement mainly evaluates the impact of changes in interest rate on the Bank's operation in terms of both income and economic value. The income simulation mainly analyzes the net interest income, which focuses on the impact of changes in interest rate on the Bank's net interest income in the short run. The economic value simulation mainly analyzes future cash flow discounted using different yield curves in various interest rate scenarios, so as to calculate the impact of changes in interest rate on the Bank's economic value.

The following tables indicate the assets and liabilities as at the end of the Reporting Period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	As at 31 December 2017					
(Expressed in thousands of Renminbi, unless otherwise stated)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the Central Bank	52,117,510	747,977	51,369,533	—	—	—
Deposits with banks and other financial institutions	9,617,694	—	6,365,194	2,598,000	654,500	—
Placements with banks and other financial institutions	2,500,000	—	2,500,000	—	—	—
Financial assets held under resale agreements	3,572,794	—	3,572,794	—	—	—
Loans and advances to customers[1]	209,084,947	—	23,915,955	72,253,031	111,106,057	1,809,904
Investment[2]	425,372,238	71,900	49,911,210	95,023,941	270,921,510	9,443,677
Financial lease receivables	6,840,341	—	2,977,922	1,676,518	2,185,901	—
Others	14,312,126	14,310,717	1,409	—	—	—
Total assets	723,417,650	15,130,594	140,614,017	171,551,490	384,867,968	11,253,581
Liabilities						
Borrowings from the central bank	307,848	—	—	307,848	—	—
Deposits from banks and other financial institution	134,537,429	—	30,869,509	54,184,550	46,270,870	3,212,500
Placements from banks and other financial institutions	13,466,127	—	3,546,559	9,919,568	—	—
Financial assets sold under repurchase agreements	39,064,430	—	39,064,430	—	—	—
Deposits from customers	342,264,228	111,982	102,330,196	91,867,159	147,919,590	35,301
Debt securities issued	89,564,751	—	37,974,793	47,594,477	3,995,481	—
Others	44,048,109	20,885,351	11,772,622	11,351,679	38,457	—
Total liabilities	663,252,922	20,997,333	225,558,109	215,225,281	198,224,398	3,247,801
Asset-liability gap	60,164,728	(5,866,739)	(84,944,092)	(43,673,791)	186,643,570	8,005,780

			As at 31 December 2016			
(Expressed in thousands of Renminbi, unless otherwise stated)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the Central Bank	43,666,527	573,486	43,093,041	—	—	—
Deposit with banks and other financial institutions	8,673,633	—	8,464,133	55,000	154,500	—
Loans and advances to customers(1)	121,930,761	—	19,162,528	37,974,369	62,522,367	2,271,497
Investment(2)	347,990,616	58,250	40,162,403	116,457,560	187,390,603	3,921,800
Financial lease receivables	4,615,491	—	1,075,819	595,989	1,907,346	1,036,337
Others	12,182,494	12,128,636	53,858	—	—	—
Total assets	539,059,522	12,760,372	112,011,782	155,082,918	251,974,816	7,229,634
Liabilities						
Deposits from banks and other financial institutions	131,028,453	—	24,590,953	52,170,000	53,267,500	1,000,000
Placements from banks and other financial institutions	3,866,521	—	3,737,146	129,375	—	—
Financial assets sold under repurchase agreements	35,164,192	—	33,874,192	1,290,000	—	—
Deposit from customers	262,969,211	50,815	92,366,755	55,452,195	115,095,660	3,786
Debt securities issued	30,223,286	—	3,925,514	22,303,420	3,994,352	—
Others	32,913,547	11,793,139	7,931,952	13,188,456	—	—
Total liabilities	496,165,210	11,843,954	166,426,512	144,533,446	172,357,512	1,003,786
Asset-liability gap	42,894,312	916,418	(54,414,730)	10,549,472	79,617,304	6,225,848

Notes:

(1) As at 31 December 2017 and 31 December 2016, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB1,754 million and RMB3,871 million, respectively.

(2) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

The Bank uses sensitivity analysis to measure the potential impact of changes in interest rate on its net profit or loss and equity. The following table sets forth, at the dates indicated, the results of the Bank's interest rate sensitivity analysis based on the Bank's assets and liabilities as of the same date:

	For the year ended 31 December			
	2017		2016	
(Expressed in thousands of Renminbi, unless otherwise stated)	**Change of net profit for the year**	**Shareholders' equity change**	Change of net profit for the year	Shareholders' equity change
100 basis points increase	**(725,802)**	**(1,470,140)**	(614,963)	(1,232,282)
100 basis points decrease	**724,521**	**1,502,690**	614,962	1,261,407

2. **Exchange rate risk**

Due to the complicated reasons for the changes in exchange rates, banks operating the foreign exchange business will face the risk of recording a decrease in revenue or suffering a loss due to the change in exchange rate if the mismatch in the currency type and duration structure of assets and liabilities results in a foreign exchange risk exposure. Exchange rate risks faced by banks mainly include trading risk and conversion risk. Trading risk represents the possibility that banks may suffer losses as a result of a change in exchange rate when using foreign currencies to conduct pricing receipt and payment transactions. Conversion risk represents the possibility that banks may suffer paper losses as a result of a change in exchange rate when converting foreign currencies into the bookkeeping base currency. The Bank's foreign currency risk mainly arises from foreign exchange self-investment of capital business, and other foreign exchange exposures. The Bank manages foreign currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies and monitoring its foreign currency exposures on daily basis. The Bank manages exchange rate risk by the following means: strict implementation of the process management of the foreign exchange business; strict management on the exchange business procedure continuous improvement in the internal control system and operational procedures; and continuous improvement in the risk management capability of the foreign exchange business.

The Bank's currency exposure as at the end of the relevant reporting period are as follows:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	**51,694,247**	**421,551**	**1,712**	**52,117,510**
Deposits with banks and other financial institutions	**7,812,720**	**1,688,247**	**116,727**	**9,617,694**
Placements with banks and other financial institutions	**2,500,000**	—	—	**2,500,000**
Interests receivable	**4,194,500**	**33,597**	**823**	**4,228,920**
Loans and advances to customers	**205,758,970**	**3,240,758**	**85,219**	**209,084,947**
Others(1)	**445,663,686**	**197,888**	**7,005**	**445,868,579**
Total assets	**717,624,123**	**5,582,041**	**211,486**	**723,417,650**
Liabilities				
Deposits from banks and other financial institutions	**134,537,429**	—	—	**134,537,429**
Placements from banks and other financial institutions	**2,012,000**	**11,040,562**	**413,565**	**13,466,127**
Deposits from customers	**333,934,816**	**7,843,255**	**486,157**	**342,264,228**
Interests payable	**12,174,541**	**285,007**	**2,852**	**12,462,400**
Others(2)	**160,517,000**	**5,657**	**81**	**160,522,738**
Total liabilities	**643,175,786**	**19,174,481**	**902,655**	**663,252,922**
Net position	**74,448,337**	**(13,592,440)**	**(691,169)**	**60,164,728**
Off-balance sheet credit commitments	**130,544,733**	**3,033,937**	**998,269**	**134,576,939**

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the Central Bank	43,464,090	200,936	1,501	43,666,527
Deposits with banks and other financial institutions	1,727,832	240,989	6,704,812	8,673,633
Interests receivable	3,535,402	18,003	2,043	3,555,448
Loans and advances to customers	116,033,807	5,655,893	241,061	121,930,761
Others(1)	361,226,149	—	7,004	361,233,153
Total assets	525,987,280	6,115,821	6,956,421	539,059,522
Liabilities				
Deposits from banks and other financial institutions	131,028,453	—	—	131,028,453
Placements from banks and other financial institutions	—	3,604,396	262,125	3,866,521
Deposits from customers	259,810,536	3,139,135	19,540	262,969,211
Interests payable	7,213,804	27,417	195	7,241,416
Others(2)	90,996,959	60,269	2,381	91,059,609
Total liabilities	489,049,752	6,831,217	284,241	496,165,210
Net position	36,937,528	(715,396)	6,672,180	42,894,312
Off-balance sheet credit commitments	101,775,465	7,244,064	1,126,444	110,145,973

Notes:

(1) Include investment securities and other financial assets, property and equipment, and other assets, etc.

(2) Include financial liabilities at fair value through profit or loss, borrowings from the central bank, financial assets sold under repurchase agreements, debt securities issued, and other liabilities, etc.

(IV) Liquidity Risk

Liquidity risk management

Liquidity risk represents the risk that the commercial bank is unable to raise sufficient funds at reasonable costs in a timely manner to satisfy due liabilities, to perform other payment obligations and to satisfy other funds requirements of commencing normal businesses. In extreme cases, liquidity insufficiency can lead to settlement risks of commercial banks. Significant growth in the demand for credit facilities, substantial performance of loan commitments, unexpected increase in non-performing loans, sharp decrease in deposit level and financing difficulty in the currency market may affect the Bank's liquidity. Meanwhile, adjustment in financial policies, dramatic changes in interest rates in the market, the Bank's own asset and liability structure and liquidity management capability are also important factors which affect the Bank's liquidity.

The Bank has established an effective liquidity management and decision-making system, and formulated asset and liability management strategies and liquidity management policy which are in line with the Bank's actual conditions. Being responsible for bank-wide liquidity management, the asset and liability management committee establishes the liquidity management plan according to the requirements and regulatory indicators for asset and liability management at the beginning of each year and monitors and adjusts this plan on a quarterly basis, with an aim to ensure the effective management of the Bank's asset and liability structure. The Bank's financial management department is responsible for the analysis and monitoring of the Bank's daily liquidity, while the financial management department, the capital transactions department, the international business department and interbank department manage the daily liquidity risk.

The Bank sticks to positive and active liquidity management policies, and actively improve the Bank's active liability capability and constantly enhance the Bank's financing capability in the interbank market, so that the bond investment business cannot only become an important source of profit for the Bank, but also become an important reserve for the Bank to maintain good liquidity. The Bank also effectively forewarns liquidity risks by carrying out tailored liquidity pressure tests.

Liquidity risk analysis

In response to changes in macroeconomic situation, monetary policy and regulatory requirements, the Bank adheres to a steady and prudent liquidity risk management strategy and constantly improves the level of liquidity risk management. The Bank actively adjusts the maturity structure of the Bank's assets and liabilities, diversifies and improves the Bank's risk management approaches, considers liquidity risk management indicators, manages daily fund positioning, as well as conducts monthly pressure tests on liquidity risk, maintaining liquidity at a reasonable level and preventing liquidity risks.

The following tables provide an analysis of assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at the end of the Reporting Period:

	As at 31 December 2017							
(Expressed in thousands of Renminbi, unless otherwise stated)	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	48,228,548	3,888,962	—	—	—	—	—	52,117,510
Deposits with banks and other financial institutions	—	2,063,194	495,000	3,807,000	2,598,000	654,500	—	9,617,694
Placements with banks and other financial institutions	—	—	2,500,000	—	—	—	—	2,500,000
Financial assets held under resale agreements	—	—	3,572,794	—	—	—	—	3,572,794
Loans and advances to customers	1,629,801	123,883	4,382,466	17,088,310	72,016,790	111,635,692	2,208,005	209,084,947
Investment	556,597	—	14,236,219	27,161,136	94,996,281	278,978,328	9,443,677	425,372,238
Financial lease receivables	—	—	176,563	632,123	2,259,399	3,772,256	—	6,840,341
Others	10,182,043	—	666,469	1,038,953	1,942,505	482,033	123	14,312,126
Total assets	60,596,989	6,076,039	26,029,511	49,727,522	173,812,975	395,522,809	11,651,805	723,417,650
Liabilities								
Borrowings from the central bank	—	—	—	—	307,848	—	—	307,848
Deposits from banks and other financial institutions	—	289,509	5,830,000	24,750,000	54,184,550	46,270,870	3,212,500	134,537,429
Placements from banks and other financial institutions	—	—	1,420,888	2,125,671	9,919,568	—	—	13,466,127
Financial assets sold under repurchase agreements	—	—	33,775,615	5,288,815	—	—	—	39,064,430
Deposits from customers	—	66,468,598	13,179,122	22,794,458	91,867,159	147,919,590	35,301	342,264,228
Debt securities issued	—	—	9,011,430	22,983,363	47,594,477	9,975,481	—	89,564,751
Others	—	8,175,817	5,914,642	8,487,457	15,213,921	6,203,034	53,238	44,048,109
Total liabilities	—	74,933,924	69,131,697	86,429,764	219,087,523	210,368,975	3,301,039	663,252,922
Net positions	60,596,989	(68,857,885)	(43,102,186)	(36,702,242)	(45,274,548)	185,153,834	8,350,766	60,164,728

(Expressed in thousands of Renminbi, unless otherwise stated)	Indefinite	Repayable on demand	Within one month	As at 31 December 2016 Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	39,349,394	4,317,133	—	—	—	—	—	43,666,527
Deposits with banks and other financial institutions	—	866,800	723,596	6,873,737	55,000	154,500	—	8,673,633
Loans and advances to customers	3,693,801	176,869	3,808,079	11,054,126	38,289,124	62,740,046	2,168,716	121,930,761
Investment	58,250	1,926,545	5,506,587	26,540,708	87,264,452	216,482,034	10,212,040	347,990,616
Financial lease receivables	—	—	13,696	292,213	839,935	3,377,459	92,188	4,615,491
Others	8,658,006	134	538,873	854,750	1,752,228	378,492	11	12,182,494
Total assets	51,759,451	7,287,481	10,590,831	45,615,534	128,200,739	283,132,531	12,472,955	539,059,522
Liabilities								
Deposits from banks and other financial institutions	—	220,953	5,730,000	18,640,000	52,170,000	53,267,500	1,000,000	131,028,453
Placements from banks and other financial institutions	—	—	1,726,994	2,010,152	129,375	—	—	3,866,521
Financial assets sold under repurchase agreements	—	—	31,932,192	1,942,000	1,290,000	—	—	35,164,192
Deposits from customers	—	65,377,256	11,151,995	15,888,319	55,452,195	115,095,660	3,786	262,969,211
Debt securities issued	—	—	—	3,925,514	22,303,420	3,994,352	—	30,223,286
Others	—	4,427,104	4,357,670	5,644,031	15,144,415	3,280,226	60,101	32,913,547
Total liabilities	—	70,025,313	54,898,851	48,050,016	146,489,405	175,637,738	1,063,887	496,165,210
Net positions	51,759,451	(62,737,832)	(44,308,020)	(2,434,482)	(18,288,666)	107,494,793	11,409,068	42,894,312

The Bank's liquidity coverage ratio

(Expressed in thousands of Renminbi, unless otherwise stated)	**As at 31 December 2017**	As at 31 December 2016
Qualified quality current assets	**18,058,809**	45,121,694
Cash outflows in the future 30 days	**11,070,323**	14,617,350
Liquidity coverage ratio (%)	**163.13**	308.69

(V) Anti-money Laundering Management

During the Reporting Period, the Bank earnestly fulfilled anti-money laundering work obligations, strictly complied with Block Trading and Suspicious Trading Report Management Measures (Order of the People's Bank of China [2016] No.3) (《大額交易和可疑交易報告管理辦法》(中國人民銀行令[2016]第3號)), revised and improved the internal control system of anti-money laundering in a timely manner, upgraded the system of anti-money laundering, conducted anti-money laundering training and promotion. We continued to strengthen and refine customer identification measures in accordance with regulatory requirements, and conducted due diligence reporting of transactions with substantial amount as well as suspicious transactions. The Bank had been actively cooperating with regulators in anti-money laundering investigation. We continued to deepen our on-the-spot inspections in anti-money laundering, and promoted our anti-money laundering work to a ever higher level, performed ever better and ever more practical in anti-money laundering aspect.

(VI) Protection of consumer rights

During the reporting period, the Bank consistently adhered to the customer-oriented business philosophy with the supervisory support from the supervisory authorities. On the one hand, the Bank strengthened its service work, and expanded the management of consumer rights protection. On the other hand, by adhering to people-orientation, service first, to social responsibility, the Bank fulfilled its duty of disclosing information to consumers, and performed responsibilitites of treating consumers fairly. The principle of fair trade were complied so as to safeguard the legitimate rights and interests of consumers according to the laws. In 2017, a total of three institutions of the Bank were awarded the title of five-star business outlets with quality civilization standardization services by China Banking Association; four institutions were awarded the title of four-star business outlets with quality civilization standardization services by China Banking Association.

With regard to the dissemination of financial knowledge, the Bank had adopted a normal state of ongoing promotion and centralized promotion. With respect to the promotion in the usual course of business, the Bank innovated to launch "financial knowledge lecture hall" and "financial knowledge into the community" activities. In terms of centralized publicity, through activities such as the 3.15 Financial Consumer Rights Day and the "Fundamental Finance Knowledge Month", the business outlets were deployed as the primary publicity site. Meanwhile, we penetrated into public areas such as communities, campuses and shopping malls, so as to introduce banking and financial information to the financial consumptions at large. This had further increased consumers' awareness of preventing financial risks, thereby reducing the distance between banks and the public, and improving people's trust in banking institutions. During the period of where financial knowledge was disseminated in 2017, more than 300,000 leaflets were distributed and the promotion team had more than 3,000 staff. In the anti counterfeit currency promotion activity on the Internet, the "Counterfeit Currency Superboy" launched by the Joint Office of the State Council in Anti Counterfeit Currency, the Bank organized more than 180,000 mass public to attend tutorial and participated in competition that raised the awareness and ability of the public in anti counterfeit currency.

Chapter 6 Changes in Ordinary Shares and Particulars of Shareholders

I. Changes in Ordinary Share Capital of the Bank

(I) Share Capital

There was no change in the ordinary share capital of the Bank during the Reporting Period. As at the end of the Reporting Period, the total number of issued ordinary shares of the Bank was 6,781,615,684 shares, including 4,264,295,684 Domestic Shares and 2,517,320,000 H Shares. The total share capital of the Bank amounted to RMB6,781,615,684.

(II) Chart on Changes in Share Capital

	31 December 2016		Changes during the Reporting Period			**31 Decemeber 2017**	
	Number of Shares	Percentage (%)	Issue of New Shares	Other	Sub-Total	**Number of Shares**	**Percentage (%)**
1. shareholding of legal person of domestic shareholders	4,186,698,558	61.74	—	—	—	**4,186,698,558**	**61.74**
Of which:							
(1) domestic legal person	228,158,434	3.37	—	(172,022,138)	(172,022,138)	**56,136,296**	**0.83**
(2) private legal person	3,958,540,124	58.37	—	172,022,138	172,022,138	**4,130,562,262**	**60,91**
2. shareholding of natural person of domestic shareholders	77,597,126	1.14	—	—	—	**77,597,126**	**1.14**
3. H Shares	2,517,320,000	37.12	—	—	—	**2,517,320,000**	**37.12**
Total	6,781,615,684	100.00	—	0	0	**6,781,615,684**	**100.00**

II. Particulars of Ordinary Shareholders

(I) Total Number of Shareholders

As at the end of the Reporting Period, the total number of ordinary shareholders of the Bank was 2,354, of which the total number of Shareholders of Domestic Shares was 2,246, and the total number of Shareholders of H Shares was 108.

(II) Shareholding of Shareholders

As at the end of the Reporting Period, the Bank had 6,781,615,684 Ordinary Shares in total, comprising 4,264,295,684 Domestic Shares and 2,517,320,000 H Shares.

Shareholding of the Top Ten Domestic Shareholders as of the end of the Reporting Period

No.	Name of Shareholders	Nature of Shareholders	Total number of Shares held	Shareholding Percentage (%)	Pledged Shares
1	Rongcheng Huatai Motor Co., Ltd. (榮成華泰汽車有限公司)	Private	317,076,722	4.68	167,076,722
2	China Enterprise Development Investment (Beijing) Co., Ltd. ("**CEDI**") (1) (中企發展投資(北京)有限公司)	Private	265,945,416	3.92	—
3	Baota Refined Chemical Industry Co., Ltd. (銀川寶塔精細化工有限公司)	Private	250,000,000	3.69	250,000,000
4	Jincheng International Logistics Group Co., Ltd.(錦程國際物流集團股份有限公司)	Private	213,507,565	3.15	150,000,000
5	Qingzhou Taihe Mines Co., Ltd. (青州泰和礦業有限公司)	Private	180,000,000	2.65	180,000,000
6	Liaoning Tenghua Plastic Co., Ltd. (遼寧騰華塑料有限公司)	Private	180,000,000	2.65	—
7	Liaoning Chengwei Plastic Profile Co., Ltd. (遼寧程威塑料型材有限公司)	Private	170,000,000	2.51	—
8	Shanghai Greenland Hongtu Investment Development Co., Ltd. (上海綠地弘途投資發展有限公司)	Private	150,000,000	2.21	—
9	Beijing Urban Construction Investment Development Co., Ltd. (北京城建投資發展股份有限公司)	Private	130,000,000	1.92	—
10	Jinzhou Daxing Construction Group Co., Ltd.(錦州大興建設集團有限公司)	Private	110,000,000	1.62	—
Total			**1,966,529,703**	**29.00**	**747,076,722**

Note:

(1) During the Reporting Period, CEDI and certain Shareholders of the Bank entered into share transfer agreement separately and acquired a total of 324,523,430 domestic shares. Of which, 265,945,416 Domestic Shares had completed filing and registration with relevant regulatory authorities in China during the Reporting Period. 51,564,491 Domestic Shares finally completed the relevant filing and registration on 2 February 2018. The remaining 7,013,523 Domestic Shares had not yet completed the relevant filing and registration as of the date of this annual report. In accordance with relevant laws and regulations, the transfer of these shares should become effective from the date of the filing and registration were completed.

Interests and Short Positions of Substantial Shareholders and Other Persons

As at the end of the Reporting Period, the following persons, other than the directors, supervisors and chief executive of the Bank, had interests or short positions in the Shares or underlying Shares of the Bank, pursuant to section 336 of the SFO, which were required to be recorded in the register maintained by the Bank:

Name of Shareholders	Nature of Interests	Class of Shares	Number of Shares[1]	Approximate Percentage of the Total Issued Ordinary Share Capital[1] (%)	Approximate Percentage of the Total Issued Class of Ordinary Share Capital[1] (%)
Domestic Shares					
Rongcheng Huatai Motor Co., Ltd.[2]	Beneficial owner	Domestic Shares	317,076,722(L)	4.68	7.44
Huatai Automobile Group Co., Ltd.[2]	Interest of controlled corporation	Domestic Shares	317,076,722(L)	4.68	7.44
Zhang Hongliang[2]	Interest of controlled corporation	Domestic Shares	317,076,722(L)	4.68	7.44
CEDI[3]	Beneficial owner	Domestic Shares	308,809,907(L)	4.55	7.24
Tianjin Quanying Technology Development Co., Ltd.[3]	Interest of controlled corporation	Domestic Shares	308,809,907(L)	4.55	7.24
Zhang Haibo[3]	Interest of controlled corporation	Domestic Shares	308,809,907(L)	4.55	7.24
Yinchuan Baota Refined Chemical Industry Co., Ltd.[4]	Beneficial owner	Domestic Shares	250,000,000(L)	3.69	5.86
Ningxia Baota Energy Chemical Co., Ltd.[4]	Interest of controlled corporation	Domestic Shares	250,000,000(L)	3.69	5.86
Baota Petrochemical Group Co., Ltd.[4]	Interest of controlled corporation	Domestic Shares	250,000,000(L)	3.69	5.86
Sun Hengchao[4]	Interest of controlled corporation	Domestic Shares	250,000,000(L)	3.69	5.86
H Shares					
CITIC Securities Company Limited	Interest of controlled corporation	H Shares	294,745,380(L) 294,745,380(S)	4.35 4.35	11.71 11.71

Name of Shareholders	Nature of Interests	Class of Shares	Number of Shares[1]	Approximate Percentage of the Total Issued Ordinary Share Capital[1] (%)	Approximate Percentage of the Total Issued Class of Ordinary Share Capital[1] (%)
Grand Fortune Venture Limited[5]	Beneficial owner	H Shares	201,700,000(L)	2.97	8.01
Xuzhou Zhongan Mining Service Co., Ltd.[5]	Interest of controlled corporation	H Shares	201,700,000(L)	2.97	8.01
Zhang Yuan[5]	Interest of controlled corporation	H Shares	201,700,000(L)	2.97	8.01
Beijing Jingyuan Wanlong Investment Management Co., Ltd.[6]	Interest of controlled corporation	H Shares	200,000,000(L)	2.95	7.95
Li Feng[6]	Interest of controlled corporation	H Shares	200,000,000(L)	2.95	7.95
Wang Xiaoliang[6]	Interest of controlled corporation	H Shares	200,000,000(L)	2.95	7.95
Wah Li (Hong Kong) Limited[7]	Beneficial owner	H Shares	184,845,000(L)	2.73	7.34
Asian Sense Investments Limited[8]	Beneficial owner	H Shares	168,086,000(L)	2.48	6.68
Li Yongjun[8]	Interest of controlled corporation	H Shares	168,086,000(L)	2.48	6.68
Liu Xinjun[8]	Interest of controlled corporation	H Shares	168,086,000(L)	2.48	6.68
BNP PARIBAS SA	Beneficial owner	H Shares	149,508,525 (L)	2.20	5.94

Notes:

(1) As at the end of the Reporting Period, the Bank had 6,781,615,684 issued Ordinary Shares in total, comprising 4,264,295,684 Domestic Shares and 2,517,320,000 H Shares. L represents long positions; S represents short positions.

(2) Such Shares are held by Rongcheng Huatai Motor Co., Ltd. (榮成華泰汽車有限公司) ("**Rongcheng Huatai**"), which is wholly owned by Huatai Automobile Group Co., Ltd. (華泰汽車集團有限公司) ("**Huatai Auto**"), which in turn held by Zhang Hongliang as to 76%. Under the SFO, Huatai Auto and Zhang Hongliang are deemed to be interested in all the Shares held by Rongcheng Huatai.

(3) According to the disclosure of interest filed by CEDI pursuant to section 336 of the SFO, CEDI held 308,809,907 Domestic Shares as at the end of the Reporting Period. During the Reporting Period, CEDI and certain shareholders of the Bank entered into share transfer agreements separately and acquired a total of 324,523,430 Domestic Shares. Of which, 265,945,416 Domestic Shares had completed filing and registration with relevant regulatory authorities in China during the Reporting Period. 51,564,491 Domestic Shares finally completed the relevant filing and registration on 2 February 2018. The remaining 7,013,523 Domestic Shares had not yet completed the relevant filing and registration as of the date of this annual report. In accordance with relevant laws and regulations, the transfer of these Shares should become effective from the date the filing and registration were completed. These Shares are held by CEDI, which was then held by Tianjin Quanying Technology Development Co., Ltd. ("**TQTD**"), which held 23.08% of the equity, while 80% was held by Zhang Haibo. Under the SFO, both TQTD and Zhang Haibo were deemed to be interested in all the Shares held by CEDI.

(4) Such Shares are held by Yinchuan Baota Refined Chemical Industry Co., Ltd. (銀川寶塔精細化工有限公司) ("**Yinchuan Baota**"), which is wholly owned by Ningxia Baota Energy Chemical Co., Ltd. (寧夏寶塔能源化工有限公司) ("**Baota Energy**"), which is in turn held by Baota Petrochemical Group Co., Ltd. (寶塔石化集團有限公司) ("**Baota Petrochemical**") as to 90.20%. Baota Petrochemical is controlled by Sun Hengchao (孫珩超) as to 43.79%. Under the SFO, Baota Energy, Baota Petrochemical and Sun Hengchao (孫珩超) are deemed to be interested in all the Shares held by Yinchuan Baota.

(5) Such Shares are held by Grand Fortune Venture Limited, which is wholly owned by Xuzhou Zhongan Mining Service Co., Ltd. (徐州中安礦業服務有限公司) ("**Xuzhou Zhongan**"), which is in turn held by Zhang Yuan (張遠) as to 80%. Under the SFO, Xuzhou Zhongan and Zhang Yuan are deemed to be interested in all the Shares held by Grand Fortune Venture Limited.

(6) Such shares are held by Hong Kong Jingyuan Wanlong Investment Management Co., Limited, which is wholly owned by Beijing Jingyuan Wanlong Investment Management Co., Ltd. ("**Jingyuan Wanlong**"), which is in turn held by Li Feng (李鳳) and Wang Xiaoliang (王曉亮) as to 60% and 40% respectively. Under the SFO, Jingyuan Wanlong, Li Feng (李鳳) and Wang Xiaoliang (王曉亮) are deemed to be interested in all Shares held by Hong Kong Jingyuan Wanlong Investment Management Co., Limited.

(7) Such Shares are held by Wah Li (Hong Kong) Limited, which is wholly owned by Zhao Yong (趙勇). Under the SFO, Zhao Yong (趙勇) is deemed to be interested in all the Shares held by Wah Li (Hong Kong) Limited.

(8) Such Shares are held by Asian Sense Investments Limited, which is in turn held by Li Yongjun (李永軍) and Liu Xinjun (劉新軍) as to 50% and 50%, respectively. Under the SFO, Li Yongjun (李永軍) and Liu Xinjun (劉新軍) are deemed to be interested in all the Shares held by Asian Sense Investments Limited.

Save as disclosed above, the Bank is not aware of any other person, other than the Directors, Supervisors and chief executive of the Bank, who had interests or short positions in the Shares and underlying Shares of the Bank as at the end of the Reporting Period, pursuant to section 336 of the SFO, which were required to be recorded in the register maintained by the Bank.

(III) Shareholders holding more than 5% of the Ordinary Share Capital

At of the end of the Reporting Period, none of the Shareholders of the Bank holds more than 5% of the Bank's total ordinary share capital.

(IV) Particulars of Controlling Shareholders and Actual Controller

The shareholding structure of the Bank is diversified with no controlling Shareholder and actual controller. During the Reporting Period, CEDI and certain shareholders of the Bank entered into share transfer agreement separately and acquired a total of 324,523,430 Domestic Shares. Of which, 265,945,416 Domestic Shares had completed filing and registration with relevant regulatory authorities in China during the Reporting Period. 51,564,491 domestic shares finally completed the relevant filing and registration on 2 February 2018. In accordance with relevant laws and regulations, the transfer of these shares should become effective from the date the filing and registration were completed. Upon the completion of the transfer conversion, CEDI held a total of approximately 4.68% of issued ordinary share capital of the Bank, and was the single largest Shareholder of the Bank.

CEDI is one of the non-state-owned shareholders of the Bank, which is held as to 23.08% by TQTD and is the Shareholder with largest shareholding. The business scope of CEDI mainly includes (but not limited to) investment management, investment consulting, and economic and trade consultation.

(V) Performance of Undertakings by the Bank and Shareholders holding more than 5% of Ordinary Shares

As of the end of the Reporting Period, the Bank has neither shareholder holding more than 5% of Ordinary Shares nor any undertaking by them.

(VI) Pledging and Freezing of Shares in respect of Shareholders holding more than 5% (inclusive) of Ordinary Shares

As at the end of the Reporting Period, there is no pledging and freezing of Ordinary Shares in respect of Shareholders holdings more than 5% (inclusive) of Ordinary Shares.

Chapter 7 Particulars of Preference Shares

I. Issuance and Listing of Preference Shares for the Past Three Years as of the End of the Reporting Period

Pursuant to the approval of the Liaoning Regulatory Bureau of the China Banking Regulatory Commission (Liaoyinjianfu [2017] No. 133) and the China Securities Regulatory Commission (CSRC [2017] No. 1833), on 27 October 2017, the Bank issued non-accumulative perpetual Offshore Preference Shares of US$1.496 billion (abbreviation of preferred stocks: BOJZ 17USDPREF, stock code: 4615) over the counter. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 30 October 2017. The par value of the overseas preference shares was RMB100 each at an issue price of US$20 per share. Shares issued amounted to 74,800,000 shares, all of which were fully paid in US dollars.

According to the RMB exchange rate announced by the China Foreign Exchange Trading Center on 27 October 2017, the total amount of proceeds raised from the issue of Offshore Preference Shares was approximately RMB9.944 billion. After deducting relevant commissions and expenses for issuance, the proceeds raised from the issuance of Offshore Preference Shares have been used to supplement other Tier 1 capital of the Bank in accordance with the applicable laws and regulations and the approval of the relevant regulatory authorities such as the Liaoning Regulatory Bureau of the China Banking Regulatory Commission and the China Securities Regulatory Commission.

Please refer to the announcements issued by the Bank on the website of the Hong Kong Stock Exchange and website of the Bank for the terms of the issuance of Offshore Preference Shares.

II. Number of Preference Shareholders and Their Shareholdings

At the end of the Reporting Period and as at the date of this annual report, the number of offshore preference shareholders of the Bank was 1.

At the end of the Reporting Period, the shareholdings of the top ten preference shareholders (or proxies) of the Bank were as follows:

Name of shareholer	Nature of shareholder	Class of shares	Change during the Reporting Period	Proportion of shareholding(%)	Total number of shares held	Number of shares held with restrictive conditions	Number of shares pledged or frozen
The Bank of New York Depository (Nominees) Limited	Offshore legal person	Offshore Preference Shares	74,800,000	100.0	74,800,000	—	N/A

Notes:

1. The shareholdings of preference shareholders are based on the information listed in the register of preference shares of the Bank.

2. Since this preference share issuance is offered non-public offshore, the list of preference shareholders name is the proxy information of the allocated investor.

3. The Bank is not aware of whether there is any connected relationship between the above-mentioned preference shareholders and the top ten ordinary shareholders, or who are acting in concert.

III. Changes in Preference Shares

Class of preference shares	Number of issued Offshore Preference Shares held on 31 December 2016	Change during the Reporting Period	**Number of issued Offshore Preference Shares held on 31 December 2017**
US dollar offshore preference shares	0	74,800,000	**74,800,000**

IV. Profit Distribution of Preference Shares

During the Reporting Period, the Bank did not declare dividends on preference shares.

V. Repurchase or Conversion of Preference Shares

During the Reporting Period, no repurchase or conversion of preference shares occurred in the Bank.

VI. Dilution Impact on the Shares in the Event that all Outstanding Offshore Preference Shares were Converted as at 31 December 2017

As at 31 December 2017, the outstanding principal amount of all 74,800,000 Offshore Preference Shares was US$1.496 billion. Assuming that the conditions of mandatory conversion were activated and that the conversion price was the initial mandatory conversion price, i.e. HK$9.09 per H Share, a maximum number of 1,278,084,312 H Shares (as converted into HK dollars at the conversion exchange rate of U.S.$1.00 to HK$7.7659) would be issued upon conversion of all outstanding Offshore Preference Shares, representing approximately 18.85% of the then existing issued share capital of the Bank as at 31 December 2017 and approximately 15.86% of the issued share capital of the Bank as enlarged by the issue of the H Shares upon the conversion of all the outstanding Offshore Preference Shares. Based on the net profit attributable to equity Shareholders of the parent company for the year ended 31 December 2017 amounted to approximately RMB8.98 billion, the basic and diluted earnings per share would be diluted to approximately RMB1.11 assuming occurrence of such conversion.

Conversion price of the Offshore Preference Shares will be subject to adjustment for distributing bonus shares with respect to the H Shares, making capitalisation issues, issuing H Shares below the market price of the H Shares (excluding any increase in the share capital as a result of conversion of certain financial instruments issued by the Bank that are convertible into ordinary Shares) or making any rights issues, as the case may be, which may have impacts on the rights of the holders of the Offshore Preference Shares. Under the premise of obtaining the approval of the CBRC and conditions of redemption, the Bank has right to redeem all or some of Offshore Preference Shares in first call date and subsequent any dividend payment date. The first redemption date is set at five years after issuance, i.e. 27 October 2022. Additional information of the main clauses of the Offshore Preference Shares are set out in the note 41 to the consolidated financial statements in this annual report.

VII. Recovery of Voting Rights of Preference Shares during the Reporting Period

During the Reporting Period, the Bank did not resume the voting right of preference shares.

VIII. Accounting Policies Adopted by Preference Shares and Reasons

According to the "Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 37 – Reporting of Financial Instruments" and "Differentiation of Financial Liabilities and Equity Instruments and Relevant Accounting Regulations" issued by the Ministry of Finance as well as the key terms of the preference shares, the preference shares under this issuance met the requirements for accounting as an equity instrument. Therefore, the preference shares under this issuance were accounted for as equity instruments.

Chapter 8 Directors, Supervisors, Senior Management, Employees and Organizations

I. Information on Directors, Supervisors and Senior Management

At the end of the Reporting Period, the information on Directors, Supervisors and senior management of the Bank are as follows:

Name	Gender	Age	Position
ZHANG Wei	Male	59	Chairman, Executive Director
HUO Lingbo	Male	61	Vice Chairman, Executive Director, Executive Vice President
LIU Hong	Female	54	Executive Director, President
WANG Jing	Male	49	Executive Director, Vice President
SUN Jing	Male	40	Executive Director, Secretary to the Board
WANG Xiaoyu	Female	49	Executive Director, Chief Financial Officer
ZHANG Caiguang	Male	55	Non-executive Director
GU Jie	Female	50	Non-executive Director
WANG Jinsong	Male	33	Non-executive Director
MENG Xiao	Female	31	Non-executive Director
CHOON Yew Khee	Male	48	Independent Non-executive Director
LIN Yanjun	Male	38	Independent Non-executive Director
CHANG Peng'ao	Male	43	Independent Non-executive Director
PENG Taoying	Female	53	Independent Non-executive Director
TAN Ying	Female	52	Independent Non-executive Director
CAI Hongguang	Male	57	Chairman of Board of Supervisors, Employee Representative Supervisor
DAI Shujun	Male	53	Vice chairman of Board of Supervisors, Employee Representative Supervisor
CAO Wenqing	Female	49	Employee Representative Supervisor
LI Wei	Female	53	Employee Representative Supervisor
LI Xiu	Female	45	Employee Representative Supervisor
HE Baosheng	Male	71	Shareholder Representative Supervisor
CHEN Tanguang	Male	34	Shareholder Representative Supervisor
HE Mingyan	Female	39	Shareholder Representative Supervisor
JIANG Daxing	Male	46	External Supervisor
DENG Xiaoyang	Male	53	External Supervisor
NIE Ying	Female	47	External Supervisor
LI Tongyu	Female	46	External Supervisor
ZHAO Hongxia	Female	39	External Supervisor
GUO Guang	Male	57	Vice President
LIU Wenzhong	Male	55	Vice President
WANG Xin (王昕)	Male	41	Vice President
WANG Xin (王鑫)	Male	48	Vice President
SONG Yaping	Female	55	Chief Accountant
LU Siwei	Male	49	Assistant to president

II. Changes in Directors, Supervisors and Senior Management Members

(I) Changes in Directors

On 29 June 2016, in accordance with the resolution passed at the 2015 Annual General Meeting, the Bank elected Mr. Lin Yanjun as an independent non-executive Director for the fourth sesson of the Board of the Bank. The term of office commenced from 25 January 2017 when the Bank received the approval from the Liaoning Regulatory Bureau of the China Banking Regulatory Commission regarding the qualification of Mr. Lin Yanjun as the director of the Bank.

On 5 December 2016, in accordance with the resolution passed at the eighteenth meeting of the fourth session of the Board, Ms. Zhao Jie resigned as an executive Director since she had reached the retirement age. Pursuant to the relevant provisions of the articles of association, the resignation of Ms. Zhao Jie took effect on the date on which his successor, Mr. Huo Lingbo, obtained the relevant regulatory approval on 28 July 2017.

On 8 February 2017, upon the approval of the first extraordinary general meeting in 2017, Mr. Huo Lingbo was appointed as the executive Director of the fourth session of the Board of Directors of the Bank. He was also appointed as the Vice Chairman of the Fourth Session of Board of Directors of the Bank at the board meeting held immediately after the first extraordinary general meeting of 2017. His term of office commenced from 28 July 2017, when Liaoning Regulatory Bureau of China Banking Regulatory Commission approved the appointment of Mr. Huo Lingbo as a director and Vice Chairman of the Bank until the expiry of the term of the Fourth Session of the Board of Directors.

On 29 December 2017, upon the consideration and approval at the second extraordinary general meeting in 2017, the Bank re-elected Mr. Zhang Wei, Mr. Huo Lingbo, Mr. Wang Jing and Ms. Wang Xiaoyu as executive Directors of the Fifth Session of the Board of Directors of the Bank, re-elected Mr. Zhang Caiguang and Ms. Gu Jie as non-executive Directors of the Fifth Session of the Board of Directors of the Bank, and re-elected Mr. Choon Yew Khee and Mr. Lin Yanjun as independent non-executive Directors of the Fifth Session of the Board of Directors of the Bank. Their respective term of office commenced from the second Extraordinary General Meeting of 2017 until the expiration of the Fifth Session of the Board of Directors. At the same time, the Bank elected Ms. Liu Hong and Mr. Sun Jing as executive Directors of the Fifth Session of the Board of Directors of the Bank and elected Mr. Wang Jinsong and Ms. Meng Xiao as non-executive Directors of the Fifth Session of the Board of Directors of the Bank, and elected Mr. Chang Peng'ao, Ms. Peng Taoying and Ms. Tan Ying as independent non-executive Directors of the Fifth Session of the Board of Directors. The Bank received the approval of the Liaoning Regulatory Bureau of the China Banking Regulatory Commission on their respective qualifications as Directors of the Bank on 13 and 14 February 2018. The term of Ms. Liu Hong commenced from 9 February 2018 until the expiration of the Fifth Session of the Board of Directors. The terms of office of Mr. Sun Jing, Mr. Wang Jinsong, Ms. Meng Xiao, Mr. Chang Peng'ao, Ms. Peng Taoying and Ms. Tan Ying commenced from 11 February 2018 until the expiration of the Fifth Session of the Board of Directors. At the same time, Ms. Chen Man, Mr. Li Dongjun and Mr. Wu Zhengkui retired as executive Directors and non-executive Directors from the date of the second Extraordinary General Meeting 2017. Mr. Jiang Daxing, Mr. Deng Xiaoyang, Mr. Niu Sihu and Ms. Jiang Jian retired as independent non-executive Directors on 11 February 2018.

On 29 December 2017, at the first meeting of the Fifth Session of the Board of Directors immediately after the second Extraordinary General Meeting 2017, Mr. Zhang Wei was re-elected as the Chairman of the Fifth Session of the Board of Directors of the Bank. Mr. Huo Lingbo was re-elected as Vice Chairman of the Fifth Session of the Board of Directors of the Bank with effective from that date.

(II) Changes in Supervisors

On 3 November 2017, upon consideration and approval by the staff representative meeting of the Bank, the Bank re-elected Ms. Li Xiu as the Employee Representative Supervisor of the fifth Board of Supervisors of the Bank. Mr. Cai Hongguang, Mr. Dai Shujun, Ms. Cao Wenqing and Ms. Li Wei were elected as the Employee Representative Supervisors of the Fifth Session of the Board of Supervisors. Their respective term of office commenced from the date of the Employee Representative Meeting until the expiration of the term of office of the Fifth Session of the Board of Supervisors.

On 29 December 2017, upon consideration and approval at the second Extraordinary General Meeting in 2017, the Bank re-elected Mr. He Baosheng as the shareholder representative supervisor of the fifth Board of Supervisors of the Bank, and re-elected Ms. Nie Ying, Ms. Li Tongyu and Ms. Zhao Hongxia as the external supervisors of the fifth session of the board of supervisors of the Bank, each having their term of office from the date of the second Extraordinary General Meeting of 2017 until the expiration of the term of office of the fifth session of the board of Supervisors. At the same time, the Bank elected Mr. Chen Tanguang and Ms. He Mingyan as shareholder representative supervisors of the Bank. Their respective term of office commenced from the date of the second Extraordinary General Meeting of shareholders in 2017 until the expiration of the term of the Fifth Session of the Board of Supervisors. The Bank elected Mr. Jiang Daxing and Mr. Deng Xiaoyang as external supervisors of the Bank. Their term of office commenced from 11 February 2018 until the expiration of the term of the Fifth Session of the Board of Supervisors.

(III) Changes in Senior Management

On 5 December 2016, upon consideration and approval at the 18th meeting of the Fourth Session of the Board of Directors, Mr. Sun Jing was appointed as Secretary of the Board of Directors. The Bank received the approval by the Liaoning Regulatory Bureau of the CBRC as to Mr. Sun Jing's qualification to act as the secretary to the Board on 24 May 2017. The term of office of Mr. Sun Jing commenced on 23 May 2017 and ended upon the expiration of the term of the fourth session of the Board of Directors. On 29 December 2017, upon consideration and approval at the first meeting of the Fifth Session of the Board of Directors, Mr. Sun Jing was reappointed as the secretary of the Board of Directors of the Bank. His term of office commenced from that date until the expiration of the Fifth Session of the Board of Directors of the Bank.

On 29 December 2017, upon consideration and approval in the first meeting of the Fifth Session of the Board of Directors, Ms. Liu Hong was appointed as the President of the Bank, and Mr. Huo Lingbo was appointed as the Vice President of the Bank, Mr. Guo Guang and Mr. Liu Wenzhong was appointed as Vice President of the Bank, Ms. Song Yaping was appointed as the chief accountant of the Bank, and Ms. Wang Xiaoyu was appointed as the chief financial officer of the Bank. Their respective term of office commenced from that date until the expiration of the Fifth Session of the Board of Directors of the Bank. At the same time, Mr. Wang Xin (王昕), Mr. Wang Jing and Mr. Wang Xin (王鑫) were appointed as Vice Presidents of the Bank. Their term of office was from 11 February 2018 until the expiration of the Fifth Session of the Board of Directors. Mr. Lu Siwei was appointed as the assistant to president of the Bank, his term of office was from 21 March 2018 until the expiration of the Fifth Session of the Board of Directors.

III. Biographies of Directors, Supervisors and Senior Management Members

(I) Biographies of Directors

1. **Mr. ZHANG Wei (張偉)**, aged 59, has been a Director and chairman of the Board of the Bank since August 2002. He is in charge of the overall operation of the Board and performs his duties as a Director through the Board and the Strategy Committee.

   Before joining the Bank, Mr. Zhang served as head of Lingyun Urban Credit Cooperative of Jinzhou City (錦州市淩雲城市信用社) from September 1991 to May 1993. He served as deputy head of Jinzhou City Urban Credit United Cooperative (錦州市城市信用聯社) from May 1993 to January 1997, as Vice President of the Bank from January 1997 to May 1998 and as president of the Bank from May 1998 to December 2012.

   Mr. Zhang obtained a master's degree in economics from Liaoning University (遼寧大學) in Liaoning, the PRC in July 1997. He has been accredited as a senior economist by the Personnel Department of Liaoning Province (遼寧省人事廳) since September 1998. In addition, Mr. Zhang was awarded the "Nationwide May 1st Labor Medal (全國五一勞動獎章)" from the All China Federation of Labor Unions (中華全國總工會) in April 2004. He was also awarded titles including the "Liaoning Top 10 Finance Person For the Year 2006 (2006年度遼寧十大財經人物)" jointly awarded by various institutions, including Liaoning Science and Technology Bureau (遼寧省科學技術廳), Liaoning Small and Medium Enterprises Bureau (遼寧省中小企業廳) and Liaoning Banking Association (遼寧省銀行業協會) in January 2007, "National Top 10 Honest Persons of Outstanding Ability in 2006 (2006年中國十大誠信英才)" issued by China's Talents (中華英才雜誌), and the "Advanced Individual in respect of the Small Business Financial Services of National Banking Financial Institutions (全國銀行業金融機構小企業金融服務先進個人)" issued by the CBRC in February 2011. He had received the special allowance awarded by the State Council (國務院特殊津貼) from 2010 to 2011, and was awarded the "Outstanding Contribution Award (突出貢獻獎)" awarded by Rural Finance Times (農村金融時報社) and China Micro Credit Alliance (中國小額信貸聯盟) in April 2012 and the "Best Individual for the Development of National Small and Medium Services Provider (全國服務中小企業發展先進個人)" granted by the China Association of Small and Medium Commercial Businesses (中國中小商業企業協會) in December 2014. In November 2016, he was awarded the "Top Ten Individuals for the Development of National Small and Medium Services Provider (2016全國服務中小企業發展十佳個人)" granted by the committee of the China Association of Small and Medium Commercial Businesses.

2. **Mr. HUO Lingbo (霍淩波)**, aged 61,has been appointed as our executive Vice President since December 2012, and as executive Director and Vice Chairman of the Bank from July 2017.

   Mr. Huo served as deputy head and head of Jinzhong Urban Credit Cooperative (錦中城市信用社) from February 1989 to February 1992 and from February 1992 to August 1995, respectively. Mr. Huo also served as Vice President, deputy party secretary, party secretary and excutive Vice President (performing the acting duties of president) of the Bank from August 1995 to December 2006, from April 2004 to December 2006, from December 2006 to February 2017 and from Decemeber 2012 to February 2017, respectively.

   Mr. Huo graduated from the Liaoning Radio and TV University (遼寧廣播電視大學) majoring in electronics in Liaoning, the PRC in August 1985 and graduated from a postgraduate course (part-time) of economics management in the Party School of C.P.C. of Liaoning Province (中共遼寧省委黨校) in Liaoning, the PRC in July 1996. He has been accredited as a senior economist by the Personnel Department of Liaoning Province (遼寧省人事廳) since August 1996.

3. **Ms. LIU Hong (劉泓)**, aged 54, has been appointed as the president of the Bank since February 2017 and as the Party secretary of the Bank since April 2017 and as the Executive Director of the Bank since February 2018, primarily responsible for the overall daily business and operation management of the Bank.

   Ms. Liu worked as teacher at Jinzhou Teachers Training College (錦州師範高等專科學校) from August 1985 to December 1994 and was head of "Sanba" savings office ("三八"儲蓄所) of Chengnei sub-branch of Jinzhou branch of Industrial and Commercial Bank of China (中國工商銀行錦州分行城內支行) from December 1994 to April 1999. She served as head of the Bank's marketing department, assistant to the president and Vice President of the Bank from March 2002 to August 2008, from August 2008 to November 2009 and from November 2009 to February 2017, respectively.

   Ms. Liu completed an undergraduate course in political education (by correspondence) and graduated from Jinzhou Normal University (錦州師範學院) in Liaoning, the PRC in July 1991. She also completed a postgraduate course in political economics and graduated from Liaoning Normal University (遼寧師範大學) in Liaoning, the PRC in July 2002. She has been accredited as a senior engineer by Personnel Department of Liaoning (遼寧省人事廳) since October 2008.

4. **Mr. WANG Jing (王晶)**, aged 49, has been an executive Director of the Bank since March 2015, Vice President of the Bank since January 2016, and was the joint company secretary of the Bank since October 2014.

   Mr. Wang served as clerk of the savings section in Jinzhou City Urban Credit United Cooperative (錦州城市信用聯社) from July 1994 to February 1997. He also served as section chief of the accounting section of the Bank's operation management department from February 1997 to March 1998,section chief of the savings section of the Bank's operation management department from March 1998 to August 1998, head of the deposits department and head of the research and development department of the Bank from August 1998 to March 2000 and from March 2000 to April 2009, respectively. He has been as been secretary to the Board of the Bank from November 2004 to May 2017, head of office of the Board from April 2009 to September 2016, assistant to president from April 2013 to January 2016 and an executive Director since March 2015. In addition, Mr. Wang was a Director of the Bank from August 2008 to October 2014.

   Mr. Wang completed an undergraduate course in oil engineering and graduated from Zhengzhou Grain College (鄭州糧食學院) in Henan, the PRC in March 1991. He has been accredited as a senior economist by the Personnel Department of Liaoning Province (遼寧省人事廳) since September 2002.

5. **Mr. SUN Jing (孫晶)**, aged 40, has been the general manager of the strategy development department of the Bank since December 2016, became the secretary to the board of the Bank since May 2017, and became the executive director of the Bank since Februay 2018.

   Mr. Sun worked in the research and development department of the Bank from April 2003 to April 2009, as vice general manager of the research and development department of the Bank from April 2009 to April 2013, as deputy head of president office of the Bank from April 2013 to October 2015, and as head of president office of the Bank from October 2015 to December 2016.

   Mr. Sun graduated from Dongbei University of Finance and Economics in Liaoning, the PRC in April 2003 and obtained a master's degree in corporate management. Since November 2003, he obtained the Intermediate Economist qualification issued by the Ministry of Personnel of the People's Republic of China.

6. **Ms. WANG Xiaoyu (王曉宇)**, aged 49, has been the Bank's head of finance since November 2004 and an executive Director of the Bank since January 2015. Ms. Wang is in charge of the daily operation of the financial management department and performing her duties as a Director through the Board.

   Ms. Wang served as head of the operation department in Tiefa sub-branch of China Construction Bank (中國建設銀行鐵法支行) from August 1989 to May 2001, Vice President in Chengnei sub-branch of the Bank from May 2001 to June 2003 and Vice President in Shanghai Road sub-branch of the Bank from June 2003 to November 2004, respectively. Ms. Wang served as a Director of the Bank from August 2008 to October 2014.

   Ms. Wang completed an undergraduate course in economics and graduated from Dongbei University of Finance and Economics (東北財經大學) in Liaoning, the PRC in July 1989. She also completed a postgraduate master of business administration course (distance learning) from Guanghua School of Management, Peking University (北京大學光華管理學院) in November 2003. She has been accredited as a senior economist by the Personnel Department of Liaoning Province (遼寧省人事廳) since September 2002.

7. **Mr. ZHANG Caiguang (張財廣)**, aged 55, has been a Director of the Bank since November 2011 and performing his duties as a Director through the Board and the Risk Management Committee. Mr. Zhang has also served as secretary to the board of directors and deputy general manager and director of Beijing Urban Construction Investment Development Co., Ltd. (北京城建投資發展股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600266), since June 2006 and since June 2009, respectively, and deputy secretary-general of the Listed Companies Association of Beijing (北京上市公司協會) since July 2009, and has been the chairman of Shenzhen Zhongke Yuandong Venture Capital Co., Ltd. (深圳市中科遠東創業投資有限公司) since October 2017.

   Mr. Zhang worked at the financial department of Beijing Urban Construction Group (北京城建集團公司) from April 1993 to December 1998, and served as deputy head and head of the investment and security department of the Beijing Urban Construction Co.,Ltd. (北京城建股份有限公司) from January 1999 to July 2000 and from July 2000 to April 2001, respectively, manager of the investment and security department of the Beijing Urban Construction Investment Development Co,. Ltd. from April 2001 to March 2005, assistant to general manager of the Beijing Urban Construction Investment Development Co., Ltd., executive Vice President of Beijing Urban Construction Zhongji Industrial Development Co., Ltd. (北京城建中稷實業發展有限公司) from March 2005 to May 2006.

   Mr. Zhang completed a junior college course in finance and accounting (part-time) and graduated from Beijing Radio and TV University (北京廣播電視大學) in Beijing, the PRC in July 1997. He also completed an undergraduate course in economics management and graduated from the correspondence college of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) in December 2000. Mr. Zhang has been accredited as an intermediary accountant by Beijing Urban Construction Group (北京城建集團公司) since July 1993.

8. **Ms. GU Jie (顧潔)**, aged 50, has been a non-executive Director of the Bank since October 2014. Ms. Gu has also served as vice general manager of Beijing Fulaige Investment Co., Ltd. (北京浮萊格投資有限公司) since November 2008.

   Ms. Gu served as head of asset management department of Bairong Investment Holding Group Co., Ltd. (百榮投資控股集團有限公司) from September 2005 to November 2008.

   Ms. Gu completed a junior college course in finance and graduated from China University of Science and Technology Management (中國科技經營管理大學) in Beijing, the PRC in July 1989.

9. **Mr. WANG Jinsong (王勁松)**, aged 33, has been the Vice President of Jinlian Holding Group Co., Ltd. (錦聯控股集團有限公司) and the executive president of Jinlian Assets Management Co., Ltd. (錦聯資產管理有限公司) since December 2017.

   He served as the administrative department manager of Jilin Modern Agriculture Group Co., Ltd. (吉林省現代農業集團) from July 2008 to February 2011, as the deputy head of the precedent secretary office and in change of legal affairs of Zhangzidao Group Co., Ltd. (獐子島集團股份有限公司) from February 2011 to February 2014, and as the head of the precedent office and in change of legal affairs of Dalian Zhenxin Canned Food Co., Ltd. (大連真心罐頭食品有限公司) from February 2014 to July 2014. He also served as the director of comprehensive management center and in change of legal affairs of Jinma Agriculture Group Co., Ltd. (金瑪農業集團公司) from July 2014 to September 2016. From September 2016 to July 2017, he worked as the head of the precedent office and in change of legal affairs of Jinlian Holding Group Co., Ltd. (錦聯控股集團有限公司). He was the assistant to president at Vice President of Jinlian Holding Group Co., Ltd. (錦聯控股集團有限公司) and executive Vice President of Jinlian Assets Management Co., Ltd. (錦聯資產管理有限公司) from July 2017 to December 2017

   Mr. Wang obtained a bachelor 's degree in literature from Tonghua Normal University (通化師範學院) in Jilin Province, the PRC in July 2008, majoring in Chinese language and literature. He has been accredited as an intermediate logistician by the Liaoning Provincial Department of Human Resources and Social Security (遼寧省人力資源和社會保障廳) since September 2012.

10. **Ms. MENG Xiao (孟曉)**, aged 31, has been the financial investment officer of Yong Xinhua Holding Co., Ltd. (永新華控股有限公司) since August 2014.

   Ms. Meng served as a consultant in New Oriental Education Technology (Group) Co., Ltd. (新東方教育科技 (集團) 有限公司) from June 2010 to October 2010, as the secretary to the chairman of the board and investment securities representative in Qingdao Hai Wo Real Estate Co., Ltd. (青島海沃置業有限公司) from October 2010 to October 2012 and as the manager of overseas financial investment department in Yong Xinhua Holding Co., Ltd. (永新華控股有限公司) from October 2012 to August 2014.

   Ms. Meng graduated from Qingdao University in Shandong Province, the PRC with a bachelor 's degree in English in June 2010 and from University of International Business and Economics in Beijing, the PRC, with a degree of master of business administration in May 2014 (part-time).

11. **Mr. CHOON Yew Khee (秦耀奇)**, aged 48, has been an independent non-executive Director of the Bank since October 2014. Mr. Choon also served as the director of the Hong Kong Chinese Importers' & Exporters' Association since January 2017 and has been a senior partner of Handong Capital Corporation (Hong Kong) since November 2017.

   Mr. Choon served successively as director of institutional business and head of retail business in Asia (excluding Japan) of Citigroup Asset Management, Hong Kong, from December 1999 to July 2006, as head of North Asia business of Lehman Brothers Investment Management, Hong Kong, from July 2006 to March 2008, as managing director of Lazard Asset Management, Hong Kong, from April 2008 to October 2013, and served as the head of Asia-Pacific region of GAM Hong Kong Limited from November 2013 to May 2017.

   Mr. Choon obtained a bachelor's degree in business administration from the City University of New York in the United States in September 1992. Mr. Choon has been accredited as a chartered financial analyst by the Association for Investment Management and Research since September 2002.

12. **Mr. LIN Yanjun (林彥軍)**, aged 38, has been an independent non-executive Director of the Bank since January 2017. Mr. Lin is currently the senior Vice President and the chief financial officer of 9F INC. (玖富互金控股集團有限責任公司).

    Before joining 9F INC. (玖富互金控股集團有限責任公司), Mr. Lin served as an analyst and manager at BOC International Holdings Limited from July 2001 to July 2004, served as a manager at Cazenove (Asia) Limited from July 2004 to October 2005, and served as a manager at Bear Stearns Asia Limited from October 2005 to May 2008. Mr. Lin served as a manager, Vice President and director at Credit Suisse (Hong Kong) Limited. Mr. Lin served as the director of Barclays Capital Asia Limited from August 2012 to April 2015.

    Mr. Lin graduated from Peking University in Beijing, the PRC in July 2001 with a bachelor's degree in money and banking.

13. **Mr. CHANG Peng'ao (常鵬翱)**, aged 43, has been a professor and doctoral supervisor in Peking University Law School (北京大學法學院) since May 2014.

    Mr. Chang served as a court clerk in Luanchuan County People's Court of Henan Province (河南省欒川縣人民法院) from July 1996 to August 1997. He also successively served as a research associate and a deputy researcher in Institute of Law, Chinese Academy of Social Sciences (中國社會科學院法學研究所) from July 2003 to December 2008.

    Mr. Chang obtained a bachelor 's degree in law from Zhengzhou University (鄭州大學) in Henan Province, the PRC in July 1996, a master 's degree in law from Peking University (北京大學) in Beijing, the PRC in July 2000, majoring in civil and commercial law and a doctor's degree in law from Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in Beijing, the PRC in July 2003, majoring in civil and commercial law. He has been accredited as a professor by Peking University Law School since May 2014.

14. **Ms. PENG Taoying (彭桃英)**, aged 53, has been a partner of BDO China Shu Lun Pan CPAs (立信會計師事務所) since December 2010.

    Ms. Peng has been in charge of or participated in the audit work of many listed companies and state-owned companies. She has been an associate professor and a professor in the Business School of Hunan University (湖南大學工商管理學院), including the former Hunan College of Finance and Economics (湖南財經學院))since January 1994. She has also served as an independent director of Shandong Huifa Foodstuff Co., Ltd. (山東慧發食品股份有限公司) since October 2012, and as an independent director of Feiyi Co., Ltd. (飛翼股份有限公司) since December 2012, and as an independent director of China United Insurance Holding Co., Ltd. (中華聯合保險控股股份有限公司) since July 2016.

    Ms. Peng graduated from Hunan Education College (湖南教育學院, currently known as Hunan Normal University (湖南師範大學)) in Hunan Province, the PRC in July 1988, majoring in math. She obtained a master 's degree from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, the PRC in July 1990, majoring in accounting and a doctor 's degree from Central South University (中南大學) in Hunan Province, the PRC in December 2005, majoring in management science and engineering. She has been awarded the senior professional title of management (管理學高級專業技術職稱) by Hunan University (湖南大學) since June 2008, and has been accredited as a certified public accountant by Hunan Institute of Certified Public Accountant (湖南省註冊會計師協會) since April 2000.

15. **Ms. TAN Ying (譚英)**, aged 52, has been a professor of College of Economy and Law, Bohai University (渤海大學經法學院) since December 2010.

    Ms. Tan served as the legal counsel of Jinzhou Gas Co., Ltd. (錦州市燃氣公司) from January 1988 to December 1992, as the legal counsel of Jinzhou 115 Factory (錦州市一一五廠) from January 1990 to December 1995 and as the legal counsel of Jinzhou Sunshine Energy Co., Ltd. (錦州市陽光能源股份有限公司) from January 2010 to December 2013. She has also been the legal counsel of Jinzhou Huaxin Assets Management (Group) Co., Ltd (錦州華信資產經營(集團)有限公司) since January 2017.

    Ms. Tan obtained a bachelor 's degree in law from China University of Political Science and Law (中國政法大學) in Beijing, the PRC in June 1994 and a master 's degree in economics from Nankai University (南開大學) in Tianjin, the PRC in July 1999, majoring in political economy. She has been accredited as a professor by Liaoning Provincial Department of Human Resources and Social Security (遼寧省人力資源和社會保障廳) since December 2010.

(II) Biographies of Supervisors

1. **Mr. CAI Hongguang (才洪光)**, aged 57, has been appointed as Employee Representative Supervisor of the Bank since December 2017, and has served as Chairman of the Board of Supervisors since then.

   Mr. Cai served as deputy division head of the credit department and the auditing department of Jinzhou Urban Credit Union (錦州市城市信用聯社), respectively, from January 1993 to March 1993 and from March 1993 to April 1994, and continued to act as section chief of the credit section and deputy division head of the sales section of Jinzhou Urban Credit Union (錦州市城市信用聯社) from February 1995 to February 1997.He acted as president and chief auditor of Yongfeng sub-branch of the Bank from February 1997 to February 2001 and February 2001 to August 2004, as Vice President of the Bank from August 2004 to December 2017.

   Mr. Cai completed a postgraduate course in political economics and graduated from Liaoning Normal University (遼寧師範大學) in Liaoning, the PRC in July 2002. Mr. Cai has been accredited as a senior economist by the Personnel Department of Liaoning Province (遼寧省人事廳) since June 1997.

2. **Mr. DAI Shujun (戴書軍)**, aged 53, has been appointed as an Employee Representative Supervisor of the Bank since December 2017 and has served as the Vice Chairman of the Board of Supervisors.

   Mr. Dai successively served as a technician, a secretary and the officer in charge of organization in Jinzhou Saltworks (錦州鹽場) from August 1985 to October 1991, as a secretary of Jinzhou First Light Industry Bureau (錦州市第一輕工業局) from October 1991 to June 1994, as the office secretary of Jinzhou City Urban Credit United Cooperative (錦州市城市信用聯社) from June 1994 to May 1995, as the head of the political work department and the secretary of Youth League Committee in Jinzhou City Urban Credit United Cooperative (錦州市城市信用聯社) from May 1995 to March 1997, as the president and the secretary of the Party Committee of Xidaqiao sub-branch of Jinzhou City Cooperative Bank (錦州市城市合作銀行西大橋支行) from March 1997 to June 1997, and as the president and the secretary of the Party Committee of Tiebei sub-branch of Jinzhou Commercial Bank (錦州市商業銀行鐵北支行) from June 1997 to January 2003. Mr. Dai served as the president of Yongfeng sub-branch of the Bank from January 2003 to February 2011, as the president of Harbin branch of the Bank from February 2011 to March 2013.

Mr. Dai graduated from the Party School of the Central Committee of C.P.C. (中共中央黨校) in Beijing, the PRC in December 1997 with a bachelor 's degree, majoring in economic management. He has been accredited as a senior economist by the Review Committee of Senior Economic Professional Position Qualification of Liaoning Province (遼寧省經濟專業高級職務任職條件評審委員會) since September 2005 and as a senior political analyst by the Review Committee of Senior Professional Position Qualification of Ideological and Political Staff in Enterprises of Liaoning Province (遼寧省企業思想政治工作人員高級專業職務任職資格評審委員會) since October 2000.

3. **Ms. CAO Wenqing (曹文青)**, aged 49, has been appointed as an Employee Representative Supervisor of the Bank since December 2017, and has been the vice president of Beijing branch of the Bank since February 2011.

   Ms. Cao successively served as a clerk of international department and the deputy head of the second department of banking regulation and supervision in the head office of the People's Bank of China (中國人民銀行) from August 1991 to July 2003, as the deputy head and the head of the second department of regulation and supervision in China Banking Regulatory Commission (中國銀監會) from July 2003 to November 2008, as the assistant to the president of the Hangzhou branch of Ping An Bank (平安銀行) from November 2008 to September 2009, as the vice president of the Shenzhen branch of Ping An Bank (平安銀行) from September 2009 to October 2010, and as the general manager of operational risk department of the head office of Ping An Bank (平安銀行) from October 2010 to February 2011.

   Ms. Cao graduated from Capital University of Economics and Business (首都經貿大學) in Beijing, the PRC in July 1991 and obtained a master 's degree in finance from Xi'an Jiaotong University (西安交通大學) in Shanxi Province, the PRC in July 1999.

4. **Ms. LI Wei (李偉)**, aged 53, has been appointed as an Employee Representative Supervisor of the Bank since December 2017, and has been the vice president and the chairman of the labor union of Shenyang branch of the Bank since October 2015.

   Ms. Li successively served as the section chief of accounting section of Xidaqiao Credit Cooperative of Industrial and Commercial Bank of China (中國工商銀行西大橋信用社) from March 1985 to September 1992, as the section chief of accounting section of Xidaqiao Credit Cooperative of Jinzhou City Urban Credit United Cooperative (錦州市城市信用聯社西大橋信用社) from September 1992 to March 1997, as an inspector of auditing department of Jinzhou Commercial Bank (錦州市商業銀行) from March 1997 to February 2002. Ms. Li served various roles in Yongfeng sub-branch of the Bank, as the section chief of accounting section from February 2002 to November 2004, as the assistant to the president from November 2004 to March 2009, and as the vice president from March 2009 to June 2009. She also served various roles in Shenyang branch of the Bank, as the general manager of financing plan department from June 2009 to June 2012, as the general manager of settlement department from June 2012 to November 2012, and as the assistant to the president from April 2013 to September 2015.

   Ms. Li graduated from Party School of the Central Committee of C.P.C. (中共中央黨校) in Beijing, the PRC in July 2003 and graduated from a postgraduate course (part-time) in Guanghua School of Management, Peking University (北京大學光華管理學院) in Beijing, the PRC in September 2003.

5. **Ms. LI Xiu (李秀)**, aged 45, has been appointed as our Employee Representative Supervisor since May 2008. Ms. Li has also served as assistant to president of Jinzhou branch of the Bank since August 2016.

   Ms. Li worked as bookkeeper of accounting department in the Railway Sub-branch of the Bank from April 1992 to September 1995. She served as office clerical employee and administrative accountant from October 1995 to October 2005. Ms. Li served successively as assistant to the president and vice president of Gaoxin sub-branch of the Bank from November 2005 to February 2011, as deputy general manager of financing plan department of Jinzhou branch of the Bank from February 2011 to September 2013 and as head of office of Jinzhou branch of the Bank from October 2013 to August 2016 respectively.

   Ms. Li completed an undergraduate course in economics management and graduated from the correspondence school of Party School of the Central Committee of C.P.C. (中共中央黨校) in December 2000. She has been accredited as an economist by the Ministry of Personnel of the PRC (中華人民共和國人事部) since November 2001.

6. **Mr. HE Baosheng (何寶生)**, aged 71, has been appointed as our Shareholder Representative Supervisor since October 2014.

   He has served as chairman of Jinzhou Jinhua Co., Ltd. (錦州錦華股份有限公司) since December 2001. Mr. He also served as a Director of the Bank from January 1997 to October 2014.

   Mr. He graduated from correspondence college of Liaoning University (遼寧大學函授學院) in economics and management in Liaoning, the PRC in September 1984. He has been accredited as a senior economist by the Personnel Department of Liaoning Province (遼寧省人事廳) since September 1992.

7. **Mr. CHEN Tanguang (陳壇光)**, aged 34, has been appointed as our Shareholder Representative Supervisor since December 2017, and has been the general manager of finance department of Xinghua Fortune Group Co., Ltd. (興華財富集團有限公司) since June 2016.

   Mr. Chen served as a clerk of finance department and the head of accounting section of finance department in Hebei Xinghua Steel Co., Ltd. (河北興華鋼鐵有限公司) from September 2007 to July 2008 and from July 2007 to July 2008, respectively. He also served as the manager of finance department of Xinghua Fortune Group Xinghua Real Estate Co., Ltd. (興華財富集團興華房地產公司) from July 2008 to September 2010, as the manager of finance department of Xinghua Fortune Group Fortune International Hotel Co., Ltd. (興華財富集團財富國際酒店公司) from September 2010 to April 2012, as the manager of finance department of Xinghua Fortune Group the Republic of Kyrgyzstan Mining Industry Management Co., Ltd. (興華財富集團吉爾吉斯共和國礦業管理公司) from April 2012 to September 2013, and as the general manager of Xinghua Fortune Group the Republic of Kyrgyzstan Xinghua International Mining Industry Co., Ltd. (興華財富集團吉爾吉斯共和國興華國際礦業公司) and the general manager of BLS Landscaping & Construction, Inc. from September 2013 to July 2016. Mr. Chen then served as an independent director of Hebei Xinghua Steel Rolled Products Co., Ltd. (河北興華鋼鐵軋材有限公司) from January 2017 to May 2017.

   Mr. Chen graduated from Jiangxi University of Technology (江西科技學院) in Jiangxi Province, the PRC in July 2007.

8. **Ms. HE Mingyan (何明艷)**, aged 39, has been appointed as our Shareholder Representative Supervisor since December 2017, and has been the vice general manager of Jinzhou Yixing College Logistics Services Limited (錦州逸興高校後勤服務有限公司) since July 2016.

Ms. He previously served as the dean of students in Bohai University Arts and Sciences Institute (渤海大學文理學院, currently known as Liaoning Institute of Science and Engineering (遼寧理工學院)) from July 2008 to July 2009 and as the dean of students in Shenyang Construction University Urban Construction Institute (瀋陽建築大學城市建設學院, currently known as Shenyang Urban Construction University (瀋陽城市建設學院)) from July 2009 to April 2010. She then served as the deputy dean of Shenyang Urban Construction University (瀋陽城市建設學院) from April 2010 to July 2016.

Ms. He graduated from Bohai University (渤海大學) in Liaoning Province, the PRC, majoring in financial management, in July 2005, and then she obtained a master 's degree in education science from Guangxi Normal University in Guilin, Guangxi Province, the PRC in July 2008.

9. **Mr. JIANG Daxing (蔣大興)**, aged 46, has been appointed as the External Supervisor since December 2017. Mr. Jiang has also worked in the Law School of Peking University (北京大學法學院) since February 2008. He has served as professor in the Law School of Peking University (北京大學法學院) and doctoral advisor in the Law School of Peking University (北京大學法學院) and head of the China Enterprise Legal Risk Management Research Centre of Peking University (北京大學中國企業法律風險管理研究中心) since February 2014. Mr. Jiang currently also serves as the vice precedent of China Institute of Securities Law (中國證券法學研究會), an executive director of China Institute of Commercial Law (中國商法學研究會), and an arbitrator of Beijing Arbitration Commission (北京仲裁委員會). He has served as independent director or external director in several companies, including Hubei Radio & Television Information Network Co., Ltd. (湖北省廣播電視信息網絡股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 000665), Beihai Yinhe Industry Investment Co., Ltd. (北海銀河產業投資股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 000806), Beijing Automotive Group Co., Ltd (北京汽車集團有限公司), Shenzhen Laibao Hi-Tech Co., Ltd. (深圳萊寶高科股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 002106), Zhuhai Hongta Renheng Packaging Co., Ltd. (珠海紅塔仁恒包裝股份有限公司), Beijing Yuanliu Hongyuan Electronic Technology Co., Ltd. (北京元六鴻遠電子科技股份有限公司), and Beijing Yiqing Holding Co., Ltd. (北京一輕控股有限責任公司).

Mr. Jiang served successively as court clerk and assistant judge in the Intermediary People's Court of Shaoyang City, Hunan Province (湖南省邵陽市中級人民法院) from July 1993 to September 1996, and as tutor, lecturer, associate professor, professor and deputy dean of the Law School of Nanjing University (南京大學法學院) from July 1999 to February 2008. Mr. Jiang served as researcher in the Law School of Peking University from March 2008 to January 2014. Mr. Jiang served as an Independent Non-executire Director of the Bank from March 2011 to February 2018, and performed his duties as a Director through the Board and the Related-party Transactions Control Committee.

Mr. Jiang obtained a master's degree in economic law from Law School of Nanjing University (南京大學法學院) in Jiangsu, the PRC in June 1999 and a doctor's degree in economic law from Law School of Nanjing University (南京大學法學院) in Jiangsu, the PRC in September 2006.

10. **Mr. DENG Xiaoyang (鄧小洋)**, aged 53, has been appointed as the External Supervisor since December 2017. Mr. Deng currently also serves as a professor in School of Accounting of Shanghai Lixin University of Accounting and Finance (上海立信會計金融學院會計學院), an independent director in Shanghai Baolong Automotive Corporation (上海保隆汽車科技股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 603197), and an independent director in Opple Lighting Co., Ltd. (歐普照明股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 603515).

    Mr. Deng previously served teaching positions in the School of Accounting of Hunan College of Finance and Economic (湖南財經學院會計系) from August 1994 to April 2000, and in Hunan University (湖南大學) from April 2000 to April 2007, respectively. Mr. Deng served teaching and researching positions in the Scientific and Research Section of School of Accounting of Shanghai Lixin University of Commerce (上海立信會計學院會計學系) from May 2007 to October 2014. Mr. Deng held the position of independent director in several companies, including Hunan Gaea Gem Co., Ltd. (湖南金健米業股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600127), from August 2003 to April 2005, Changsha Lyrun Material Co., Ltd. (長沙力元新材料股份有限公司), currently known as Hunan Corun New Energy Co., Ltd. (湖南科力遠新能源股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600478), from March 2002 to June 2008, Hunan Copote Science & Technology Co., Ltd. (湖南湘郵科技股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600476), from April 2004 to May 2010, and Hunan Sunward Intelligent Equipment Co., Ltd. (湖南山河智能機械股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 002097), from April 2004 to April 2010. Mr. Deng served as an Independent Non-executive Director of the Bank from March 2011 to February 2018.

    Mr. Deng obtained a doctor's degree in management from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, the PRC in February 2001. Mr. Deng has been accredited as a professor by Hunan University (湖南大學) since June 2002.

11. **Ms. NIE Ying (聶穎)**, aged 47, has been appointed as our external Supervisor since October 2014. She has also served as professor of the School of International Business in Shenyang Normal University (瀋陽師範大學國際商學院) since January 2014.

    Ms. Nie served as staff and business manager of the securities administration department in Jinzhou Port Co., Ltd. (錦州港股份有限公司) from July 1993 to May 2000, and vice professor of College of International Business in Shenyang Normal University (瀋陽師範大學國際商學院) from September 2003 to December 2013.

    Ms. Nie obtained a bachelor's degree in industrial foreign trade from Liaoning Institute of Technology (遼寧工學院) in Liaoning, the PRC in July 1993 and graduated from a postgraduate course (part-time) of investment and economics in the Graduate School of the Chinese Academy of Social Sciences (中國社會科學院研究生院) in Beijing, the PRC in April 1998. She obtained a master's degree in economics from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in Beijing, the PRC in June 2007 and a doctor's degree in finance from Liaoning University (遼寧大學) in Liaoning, the PRC in June 2011. Ms. Nie has been accredited as a professor by Shenyang Normal University (瀋陽師範大學) since December 2013.

12. **Ms. LI Tongyu (李彤煜)**, aged 46, has been appointed as our external Supervisor since October 2014. She has also served as a teacher and an associate professor of Liaoning University of Technology (遼寧工業大學) since August 1993 and August 2004, respectively.

    Ms. Li graduated from an undergraduate course of industrial management engineering from Liaoning Institute of Technology (遼寧工學院) in Liaoning, the PRC in July 1993 and obtained a master's equivalent degree in enterprise management from Capital University of Economics and Business (首都經濟貿易大學) in Beijing, the PRC in July 2001. She has been accredited as an associate professor by the Personnel Department of Liaoning Province (遼寧省人事廳) since August 2004.

13. **Ms. ZHAO Hongxia (趙宏霞)**, aged 39, has been appointed as our external Supervisor since October 2014. She has served various teaching and research positions in the School of Management of Bohai University (渤海大學管理學院) since March 2013 and served as a professor since November 2015.

    Ms. Zhao served teaching and research positions in Liaoning University of Engineering and Technology (遼寧工程技術大學) from April 2005 to February 2013.

    Ms. Zhao obtained a bachelor's degree in management from Liaoning University of Engineering and Technology (遼寧工程技術大學) in Liaoning, the PRC in July 2002, a master's degree in management from Liaoning University of Engineering and Technology (遼寧工程技術大學) in Liaoning, the PRC in March 2005 and a doctor's degree in management from Liaoning University of Engineering and Technology (遼寧工程技術大學) in Liaoning, the PRC in January 2010.

(III) Biographies of Senior Management Members

1. For biography of **Ms. Liu Hong**, please refer to section headed "Directors, Supervisors, Senior Management, Employees and Organizations-Biographies of Directors" of this Annual Report.

2. For biography of **Mr. Huo Lingbo**, please refer to section headed "Directors, Supervisors, Senior Management, Employees and Organizations-Biographies of Directors" of this Annual Report.

3. **Mr. GUO Guang (郭光)**, aged 57, has been appointed as our Vice President, and has been in charge of the president's office and the integrated affairs department since January 2007.

    Mr. Guo served as coordinator at the planning department of Jinzhou Urban Credit Union (錦州市城市信用聯社) from July 1992 to September 1993, and served as vice director of Jinzhou Linghe Credit Union (錦州市淩河信用社) from September 1993 to February 1994. Mr. Guo was deputy division head of the deposit division and accounting division of Jinzhou Urban Credit Union (錦州市城市信用聯社), respectively, from February 1994 to February 1996 and from February 1996 to March 1997, and acted as deputy division head of the planning division of the Bank from March 1997 to March 1998. He served as head of the planning and finance department from March 1998 to March 2003, head of the finance and management committee under the Board from March 2003 to June 2004, deputy chief accountant from June 2004 to June 2005 and chief economist from June 2005 to December 2006, of the Bank.

    Mr. Guo completed an undergraduate course (by correspondence) in economics management and graduated from the Party School of the Central Committee of C.P.C. (中共中央黨校) in December 2000. He has been accredited as a senior economist by the Personnel Department of Liaoning Province (遼寧省人事廳) since December 2003.

4. **Mr. LIU Wenzhong (劉文忠)**, aged 55, has been appointed as our Vice President since May 2013, and as president of Beijing branch of the Bank since March 2011. He is currently in charge of the operation of Beijing branch of the Bank.

   Mr. Liu worked as clerk and section chief of the credit section in Lingyun Urban Credit Cooperative (淩雲城市信用社) from January 1992 to March 1996, Vice President of Lingyun sub-branch of the Bank from March 1996 to March 2002, president of Lingyun sub-branch of the Bank from March 2002 to July 2011, and assistant to president of the Bank from March 2011 to May 2013. Mr. Liu worked as Vice President of Beijing branch of the Bank from July 2011 to January 2012.

   Mr. Liu completed a junior college course in electric automation and graduated from Liaoning Radio and TV University (遼寧廣播電視大學) in Liaoning, the PRC in July 1987. He also completed a postgraduate course in industrial economics and graduated from Capital University of Economics and Business (首都經濟貿易大學) in Beijing, the PRC in July 2001. Mr. Liu has been accredited as an economist by the Personnel Department of Liaoning Province (遼寧省人事廳) since February 1995.

5. **Mr. WANG Xin (王昕)**, aged 41, has been appointed as our Vice President since January 2016. He is in charge of pre-lending management department, lending-in progress management department, post-lending management department and non-performing asset management department of the Bank.

   He served successively as an employee in the Bank's bank card department from July 1999 to March 2000, and the Bank's credit management department from March 2000 to March 2001, deputy head of the Bank's credit management department from March 2001 to July 2003, chief in the Bank's credit management department from January 2005 to January 2007 and assistant to president of Tianjin branch of the Bank from December 2008 to April 2010. Mr. Wang served as Vice President of Tianjin branch of the Bank from April 2010 to February 2012, and served as the assistant to the President from February 2012 to January 2016.

   Mr. Wang obtained a bachelor's degree in economics from Dongbei University of Finance and Economics (東北財經大學) in Liaoning, the PRC in July 1999 and a master's degree in business administration from the Chicago branch campus of the University of Illinois in the United States in August 2008. Mr. Wang is currently studying at Dongbei University of Finance and Economics (東北財經大學) in Liaoning, the PRC for a doctor's degree in finance.

6. For biography of **Mr. WANG Jing**, please refer to section headed "Directors, Supervisors, Senior Management, Employees and Organizations-Biographies of Directors" of this Annual Report.

7. **Mr. WANG Xin (王鑫)**, aged 48, has been appointed as Vice President since November 2017. He is currently in charge of the operation of Jinzhou branch of the Bank.

   Mr. Wang served as auditor of auditing department in Jinzhou City Urban Credit United Cooperative from November 1992 to March 1994, as well as credit officer of credit section of Jinzhou City Cooperative Bank and deputy-division-head-level credit officer of credit department. He served as Vice President in the Railway branch of the Bank and Shanghai Road sub-branch of the Bank from March 1998 to February 2010, president of Dandong branch and president of Yongfeng sub-branch from February 2010 to April 2012, deputy division head of Jinzhou management department, Vice President of Jinzhou branch and president of Shenyang branch of the Bank from April 2012 to April 2015, president and party committee secretary of Jinzhou branch from April 2015 to August 2016, and president of Jinzhou branch since April 2015, and assistant to President of the Bank from March 2016 to November 2017.

Mr. Wang received an in-service graduate degree in regional economics from Graduate School of Peking University in December 2002. He has been a professor-level senior economist recognized by the Liaoning Provincial Personnel Department since October 2008.

8. **Ms. SONG Yaping (宋亞萍)**, aged 55, has been appointed as our chief accountant since December 2012. She is currently in charge of internal audit department.

   Ms. Song worked in Jinzhou Municipal Auditing Bureau (錦州市審計局) from June 1989 to December 2010. Ms. Song served as general auditor of the Bank from December 2010 to December 2012.

   Ms. Song completed an undergraduate course in economics management and graduated from the Party School of C.P.C. of Liaoning Province (中共遼寧省委黨校) in Liaoning, the PRC in July 2005. She has been accredited as a senior auditor by Liaoning Provincial Audit Office (遼寧省審計廳) since August 1998.

9. **Mr. Lu Siwei (路思偉)**, aged 49, has served as assistant to President of the Bank since November 2017. He has also been the president of the Dalian Branch of the Bank since February 2011, and has served as the party committee secretary of the Dalian Branch of the Bank since November 2013.

   Mr. Lu served as a loan officer, credit manager, assistant director and deputy director of the Jinhua Credit Union from July 1990 to February 1997. From February 1997 to June 2009, he successively served as vice president of the Jinhua Sub-branch of the Bank, served as the manager of the pawnshop of the Bank, and served as the president of Jinhua Sub-branch of the Bank. From June 2009 to October 10, 2010, he served as Party Committee Secretary and vice president of Shenyang Branch of the Bank. From October 2010 to December 2010, he served as the leader of the preparatory group for the Changsha Branch of the Bank. From December 2010 to February 2011, he participated in the preparatory group for the Beijing Branch of the Bank.

   Mr. Lu graduated from the Liaoning Institute of Technology (now Liaoning University of Technology) in Liaoning, China, in July 2002. He earned a bachelor's degree in computer and applications. He has been accredited as a professor-level senior economist by the Liaoning Provincial Department of Personnel since August 2007.

10. For biography of **Mr. SUN Jing**, please refer to section headed "Directors, Supervisors, Senior Management, Employees and Organizations-Biographies of Directors" of this Annual Report.

11. For biography of **Ms. WANG Xiaoyu**, please refer to section headed "Directors, Supervisors, Senior Management, Employees and Organizations-Biographies of Directors" of this Annual Report.

(IV) Biographies of Joint Company Secretaries

1. **Mr. WANG Jing (王晶)**, was appointed as a joint company secretary of the Bank in October 2014. For his biography, please refer to section headed "Directors, Supervisors, Senior Management, Employees and Organizations-Biographies of Directors" of this Annual Report.

2. **Ms. LEUNG Wing Han Sharon (梁頴嫻)**, was appointed as a joint company secretary of the Bank in October 2014. Ms. Leung is a Vice President of SW Corporate Services Group Limited, and she has over 11 years of experience in finance, accounting and company secretarial matters. Ms. Leung holds degrees of bachelor of business administration in accounting, bachelor of laws, and master of laws in international corporate and financial law. She is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators in UK, and the Association of Chartered Certified Accountants in UK. She is also a member of the Hong Kong Institute of Certified Public Accountants.

IV. Compensation of Directors and Supervisors and Five Individuals with the Highest Emoluments of the Bank

For detailed compensation of Directors and Supervisors and five individuals with the highest emoluments in the Bank, please refer to notes 8 and 9 to financial statement included in this annual report.

V. Employee, Employee Compensation Policy and Employee Training Program

(I) Staff Composition

At the end of the Reporting Period, we had 4,549 full-time employees, of which 3,300 employees or 72.54% had bachelor's degrees or above, with the average age of 36.7.

In addition to full-time employees, at the end of the Reporting Period, we also had 1,247 contractors from third party human resources agencies. These contractors are not our employees and enter into employment contracts with third party human resources agencies.

(II) Employee Training Program

The Bank regards quality of our team, notices the overall enhance in leadership of management members and business skill level of employee, as well as insists in performing training to promote achievement in business objectives. During the Reporting Period, the Bank embarked on a re-selection of the online learning platform from the perspective of improving the training management system, forming a multi-dimensional, three-dimensional training model online and offline to ensure full coverage of the training work. During the annual training program, the Bank integrates the focus of training with daily works. The Bank establishes an optimal platform for learning and development, explores the promotion path for employee, and promotes to enhance both staff quality and standard and level of competitiveness of the Bank.

(III) Employee Incentive Policies

We have been committed to establish total performance management system by effectively combining firm performance assessment and employee performance assessment, so as to decompose our strategic objectives into sub-objectives, and eventually into objectives for every employee to fill, to ensure unity of objectives in the Bank. In the aspect of applications of performance management, by positively exploration of the contents and functions of performance management tools such as Balanced Scorecard (BSC) and Key Performance Indicator (KPI), we are able to take full advantage of leading performance management tools, to promote the performance management level of the Bank. In addition, we concentrate our efforts to provide "Y"–type career development channel for our employees by an integration of supervisory sequence and professional sequence, to increase promotion opportunities and satisfy employees' requirements for career development, and fully encouraging employees to achieve self-value.

(IV) Remuneration Policies for Employees

Our remuneration policies are in line with the implementation of our strategic goals, the enhancement of our competitiveness, talent cultivation and risk control. These policies are developed based on the principles that satisfy our corporate governance requirements, give consideration to both the competitiveness and sustainability of the Bank, and are in line with our operating results adapted to risk cost and balance our short-term and long-term incentives. Remuneration of our employees comprises of fixed salary, variable compensation and allowance. Deferred payment and fixed term of payment are applied to senior management and key personnel to strengthen risk control.

(V) Retirement and Benefits

According to applicable laws in China, the Bank's male employees, cadre female employees and non-cadre female employees reaching the age of 60, 55 and 50, respectively, shall retire. The salary of retired employees will be suspended and paid by the social insurance fund agency to their basic pension on a monthly basis starting from the second month after retiring procedures are completed. With respect to benefits, the headquarters and the branches shall make timely and full contribution to basic old-age pension, unemployment insurance, basic medical insurance, work-related injury insurance, maternity insurance, and housing provident fund for all in-service employees pursuant to applicable laws and regulations in China.

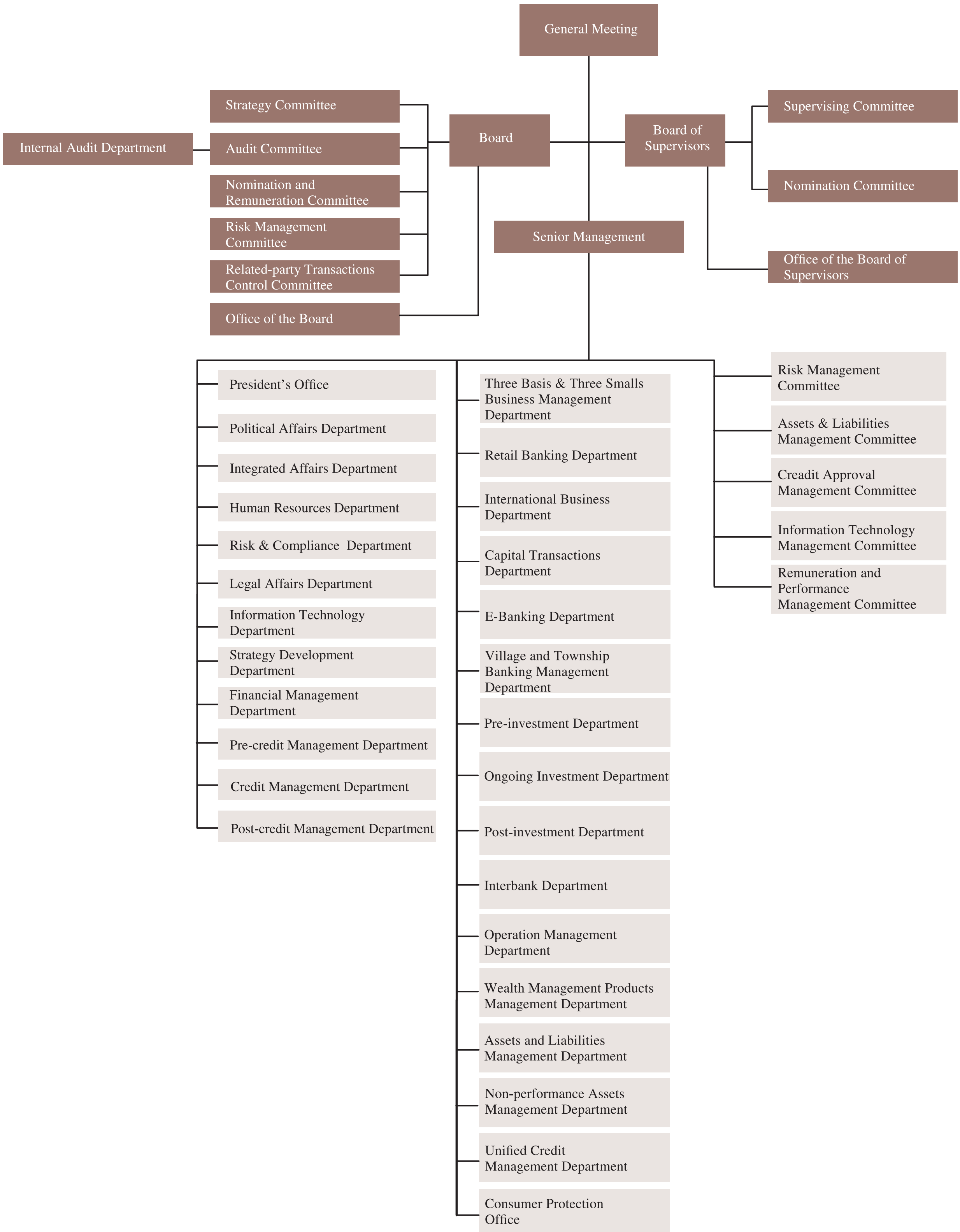
VI. Branches and Subsidiaries

Name of Branches/Subsidiaries	Location of Business	Remarks
Headquarters	No. 68 Keji Road, Jinzhou, Liaoning Province, the PRC	
Bank of Jinzhou Co., Ltd., Beijing Branch	No. 5 Jianguomenbei Avenue, Dongcheng District, Beijing, the PRC	With 6 sub-branches
Bank of Jinzhou Co., Ltd., Tianjin Branch	No. 236 Nanjing Road, Heping District, Tianjin, the PRC	With 7 sub-branches
Bank of Jinzhou Co., Ltd., Shenyang Branch	No. 18 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC	With 12 sub-branches
Bank of Jinzhou Co., Ltd., Dalian Branch	No. 23 Renmin Road, Zhongshan District, Dalian, Liaoning Province, the PRC	With 6 sub-branches
Bank of Jinzhou Co., Ltd., Harbin Branch	No. 381 Youyi Road, Daoli District, Harbin, Heilongjiang Province, the PRC	With 6 sub-branches
Bank of Jinzhou Co., Ltd., Dandong Branch	No. 111 Jinshan Avenue, Yuanbao District, Dandong, Liaoning Province, the PRC	With 19 sub-branches
Bank of Jinzhou Co., Ltd., Fushun Branch	No. 13 Xinhua Avenue, Shuncheng District, Fushun, Liaoning Province,the PRC	With 16 sub-branches
Bank of Jinzhou Co., Ltd., Anshan Branch	No. 15- S1, S2, S3, S4, S5, Shenglinan Road Tiedong District, Anshan, Liaoning Province, the PRC	With 4 sub-branches
Bank of Jinzhou Co., Ltd., Chaoyang Branch	No. 5 Xinhua Road (Section 2), Shuangta District, Chaoyang, Liaoning Province, the PRC	With 5 sub-branches
Bank of Jinzhou Co., Ltd., Fuxin Branch	Block D, No. 4 Yingbin Avenue, Xihe District, Fuxin, Liaoning Province, the PRC	With 1 sub-branch
Bank of Jinzhou Co., Ltd., Liaoyang Branch	No. 366-1 Xinhua Road, Baita District, Liaoyang, Liaoning Province, the PRC	With 1 sub-branch
Bank of Jinzhou Co., Ltd., Huludao Branch	1C Lanhua Plaza, Xinhua Avenue, Lianshan District, Huludao, Liaoning Province, the PRC	
Bank of Jinzhou Co., Ltd., Benxi Branch	No.8 Renmin Road, Pingshan District, Benxi, Liaoning Province, the PRC	
Bank of Jinzhou Co., Ltd., Benxi Yingkou Branch	No.12-A1, East Bohai Avenue, Zhanqian District, Yingkou City, Liaoning Province, China	
Bank of Jinzhou Co., Ltd., Jinzhou Branch	No. 69 Shifu Road, Jinzhou, Liaoning Province, the PRC	With 107 sub-branches
Bank of Jinzhou Co., Ltd., Small Enterprise Financial Service Centre	No. 25-1, 2 Zhongyang Avenue (Section 2), Linghe District, Jinzhou, Liaoning Province, the PRC	
Jinzhou Taihe Jinyin Village and Township Bank Co., Ltd.	No.29-86, Jixiang Xinjiayuan, Taihe District, Jinzhou City, Liaoning Province, the PRC	With 6 sub-branches
Liaoning Yi County Jinyin Village and Township Bank Co., Ltd.	No.38-21, Yingbin Road, Yizhou Town, Yi County, Jinzhou City, Liaoning Province, the PRC	With 4 sub-branches
Liaoning Beizhen Jinyin Village and Township Bank Co., Ltd.	No. 1-1-121, Lvshan Road, Beizhen City Liaoning Province, the PRC	With 3 sub-branches
Liaoning Heishan Jinyin Village and Township Bank Co., Ltd.	House No. 9-14 (Level 1-3), City East, South Side,Diwang Fudi, No. 194, Zhongda Central Road,Heishan Town First Street, Heishan County,Liaoning Province, the PRC	With 3 sub-branches
Liaoning Kazuo Jinyin Village and Township Bank Co., Ltd.	No. 01001, Building 10, Lidu Shuian Community, Binhe North Road, Dachengzi Town, Kazuo County, Chaoyang, Liaoning Province, the PRC	With 1 sub-branch
Liaoning Linghai Jinyin Village and Township Bank Co., Ltd.	Outlet No. 57-60, Block 1, Ziguanghaoyuan,No. 5 Zhongxing Avenue, Linghai, Jinzhou,Liaoning Province, the PRC	
Liaoning Huanren Jinyin Village and Township Bank Co., Ltd.	No.2, Unit 0, Building 1, Block 1 Xinshi Street, Huanren Town, Huanren Manchu Autonomous County, Benxi,	
Bank of Jinzhou Financial Leasing Co.,Ltd.	No.18, Beizhan Road, Shenhe District,Shenyang, Liaoning Province, the PRC	

Chapter 9 Corporate Governance Report

I. Organization Structure

As at the end of the Reporting Period, the organization chart of the Bank was as follows:



II. Corporate Governance Overview

The Bank strives to increase the transparency and accountability of corporate governance to ensure high standards of corporate governance for protecting the interest of Shareholders and enhancing the enterprise value and commitments. The Bank has adopted the Corporate Governance Code ("Corporate Governance Code") of Appendix 14 to the Listing Rules, administrative measures for commercial banks in China, as well as the relevant requirements for corporate governance. The Bank has also established a satisfactory corporate governance system. The Bank has further improved the information disclosure standards, regulated the management of investor relations activities and enhanced the corporate transparency and governance standards persistently.

During the Reporting Period, the Bank has fully complied with all code provisions contained in the Corporate Governance Code. The Directors are not aware of any information which indicates any non-compliance of the Bank with the code provisions contained in the Corporate Governance Code.

The Bank will continue to enhance corporate governance to ensure the corporate governance of the Bank will continue to comply with the requirements of the Corporate Governance Code and satisfy the expectations of Shareholders and investors.

III. General Meeting

During the Reporting Period, the Bank convened one shareholders' Annual General Meeting and two shareholders' Extraordinary General Meetings, one domestic shareholders' Class Meeting and one H shareholders' Class Meeting. The Bank convened the 2017 First Extraordinary Shareholders' General Meeting on 8 February 2017 and held the 2016 Annual General Meeting subsequently on 25 May 2017. The 2017 First Domestic Shareholders'Class Meeting and the 2017 First H Shareholders' Class Meeting were held on 25 May 2017. The 2017 Second Extraordinary Shareholders' General Meeting was held on 29 December 2017.

The following resolutions were considered and approved in the 2017 First Extraordinary Shareholders' General Meeting: "Articles of Association of Bank of Jinzhou Co., Ltd. (draft)" applicable after the initial public offering and listing of the A-shares of the Bank, amendment to the Rules of Procedure for the Shareholders' General Meeting of the Bank of Jinzhou Co., Ltd., amendment to the Rules of Procedure for the Board of Directors of Bank of Jinzhou Co., Ltd., amendment to the Rules of Procedure for the Board of Supervisors of Bank of Jinzhou Co., Ltd., amendment to the Measures for the Management of Connected Transactions of Bank of Jinzhou Co., Ltd., amendment to the Detailed Rules for the Implementation of the Associated Credit Management of Bank of Jinzhou Co., Ltd. and appointed Mr. Huo Lingbo as an executive director, etc.

The following ordinary resolutions were considered and approved at the 2016 Annual General Meeting: the annual report of the Bank for the financial year ended 31 December 2016, the report of the board of directors of the Bank for the year ended 31 December 2016, the report of the board of supervisors of the Bank for the year ended 31 December 2016, 2016 Directors Due Diligence Evaluation Report, the Bank's final financial accounts for the year ended 31 December 2016 and financial budget plan for 2016, the Bank's profit distribution plan for the year ended 31 December 2016, 2017 affiliate credit program, and the re-appointment of KPMG as the Bank's international and domestic auditors, etc.

The following special resolutions were considered and approved at the 2016 Annual General Meeting: non-public issuance of the Offshore Preference Shares by the Bank: the authorisation to the Board and the persons authorised by the Board to deal with all matters relating to the issuance of the Offshore Preference Shares; the proposed amendments to the articles of association of the Bank; the extension of the validity period of the A Share Offering and the relevant authorisation matters; the general mandate to issue new Shares; and the issue of the Green Financial Bonds, etc.

The following special resolutions were considered and approved at the 2017 First Domestic Shareholders'Class Meeting: the authorisation to the Board and the persons authorised by the Board to deal with all matters relating to the issuance of the Offshore Preference Shares; the extension of the validity period of the A Share Offering and the relevant authorisation matters, etc.

The following special resolutions were considered and approved at the 2017 First H Shareholders' Class Meeting: the authorisation to the Board and the persons authorised by the Board to deal with all matters relating to the issuance of the Offshore Preference Shares; the extension of the validity period of the A Share Offering and the relevant authorisation matters, etc.

The following resolutions were considered and approved at the 2017 Second Extraordinary Shareholders' General Meeting: changes in the board of directors, board of supervisors, etc.

IV. Board of Directors and Special Committees

(I) Implementation of Resolutions of General Meetings by the Board of Directors

During the Reporting Period, the Board of Directors was able to strictly execute the resolutions of the general meetings and successively completed such tasks as profit distribution, the issue of Offshore Preference Shares, etc.

(II) Composition of the Board of Directors

As at the end of the Reporting Period, the Board of Directors consists of 12 Directors, including 4 executive Directors who are Mr. Zhang Wei (Chairman), Mr. Huo Lingbo (Vice Chairman) Mr. Wang Jing and Ms. Wang Xiaoyu; 2 non-executive Directors who are Mr. Zhang Caiguang and Ms. Gu Jie; and 6 independent non-executive Directors who are Mr. Jiang Daxing, Mr. Deng Xiaoyang, Mr. Niu Sihu, Ms. Jiang Jian, Mr. Choon Yew Khee, and Mr. Lin Yanjun.

On 29 December 2017, upon consideration and approval at the 2017 second extraordinary general meeting, the Bank elected Ms. Liu Hong and Mr. Sun Jing as Executive Directors of the fifth session of the Board of Directors of the Bank and elected Mr. Wang Jinsong and Ms. Meng Xiao as the Non-executive Directors of the fifth session of the Board of Directors, elected Mr. Chang Peng'ao, Ms. Peng Taoying and Ms. Tan Ying as the independent non-executive Directors of the Fifth session of the Board of Directors. The Bank received the approval from the Liaoning Regulatory Bureau of the China Banking Regulatory Commission on their respective qualifications as directors of the Bank on 13 and 14 February 2018, respectively. The term of office of Ms. Liu Hong commenced from 9 February 2018 until the expiration of the fifth session of the Board of Directors. The terms of office of Mr. Sun Jing, Mr. Wang Jinsong, Ms. Meng Xiao, Mr. Chang Pengshao, Ms. Peng Taoying and Ms. Tan Ying commenced from 11 February 2018 until the expiration of the fifth session of the Board of Directors. At the same time, Ms. Chen Man, Mr. Li Dongjun and Mr. Wu Zhengkui retired as executive directors and non-executive directors from the date of the 2017 second Extraordinary General Meeting. Mr. Jiang Daxing, Mr. Deng Xiaoyang, Mr. Niu Sihu and Ms. Jiang Jian retired as independent non-executive directors from 11 February 2018.

The Board of Directors is responsible for establishing the management system of the Bank, supervision and control over important matters such as the decisions and performance of the business and financial policies of the Bank. The Board of Directors is accountable to the general meeting. The Board of Directors has delegated to the management the rights and duties of managing the Bank. In addition, the Board of Directors has also assigned to the Strategy Committee, Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Related-party Transactions Control Committee their respective responsibilities. Details about the above special committees are set out in this annual report.

The Board of Directors is also responsible for the performance of the corporate governance functions pursuant to the Corporate Governance Code.

(III) Relationships between Directors, Supervisors and Senior Management Members

The Directors, Supervisors and Senior Management members of the Bank are not related to each other in respect of financial business, family or other material/relevant relationships.

(IV) Changes of Directors

For changes of Directors, please refer to the section headed "Directors, Supervisors, Senior Management Members, Employees and Basic Particulars of Branches – Changes in Directors, Supervisors and Senior Management Members" in this annual report.

(V) Operation of the Board of Directors

The Board of Directors shall convene at least 4 meetings per year and at least one meeting per quarter. The meetings of the Board of Directors are divided into regular meetings and extraordinary meetings. The regular meetings of the Board of Directors are convened by the Chairman, a notice in writing shall be delivered to all Directors and Supervisors 14 days prior to the date of convening the meeting. The notice of extraordinary meeting of the Board of Directors is 3 business days prior to the date of convening the meeting. In emergency circumstances, if an extraordinary meeting of the Board of Directors is required to be convened as soon as possible, the notice of meeting may be issued through telephone or other verbal means, but the convener shall give an explanation at the meeting. The meeting of the Board of Directors will generally conduct voting at the meeting (including video conference) by way of a show of hands and voting by registered ballot.

Subject to sufficient protection is ensure for the expression of opinions by Directors, the extraordinary meeting of the Board of Directors may passed resolutions by communication voting to be signed by participating Directors. The conditions and procedure of communication voting are provided in the Articles of Association and the Rules of Procedure for Meetings of the Board of Directors.

The Board of Directors shall record the decisions on matters considered at the meetings in the minutes of meetings, the participating Directors and the recorder of minutes shall sign on the minutes of meeting. Directors attending the meeting are entitled to request an explanation on record to be made in respect of their verbal comments in the meetings.

The relevant senior management members are invited to attend meetings of the Board of Directors from time to time for providing explanations or answering queries. In the meetings of the Board of Directors, Directors may express their opinions freely, important decisions should be made after detailed discussions have been conducted. If any Director has a conflict of interest in a matter to be considered by the Board of Directors, the relevant Director shall avoid the discussion and abstain from voting on the relevant resolution, and such Director shall not be counted as quorum in voting for that resolution.

The Board of Directors has established an office for use as the operating arm of the Board of Directors, the office of the Board of Directors shall be responsible for the preparation of general meetings, meetings of the Board of Directors and meetings of all special committees, information disclosure and other daily duties.

(VI) Functions and Authorities of the Board of Directors

The Board of Directors exercises the following functions and authorities

(1) to convene the general meeting, and report to the general meeting;

(2) to implement the resolutions of the general meeting;

(3) to decide on the development plans of the Bank;

(4) to decide on operation plans, investment plans and major assets disposal plans of the Bank;

(5) to formulate annual financial budgets and final accounts of the Bank;

(6) to formulate profit distribution plans and loss recovery plans of the Bank;

(7) to formulate proposals on the increase or decrease of registered capital, the issuance of bonds or other securities and the listing of the Bank;

(8) to formulate proposals on major acquisitions by the Bank, acquisitions of the stock of the Bank or merger, division, dissolution and change of the corporate form;

(9) to regularly evaluate and improve the Bank's corporate governance;

(10) to decide on external investment, acquisition and disposal of assets, assets mortgage, external guarantee matters, related/connected transactions and other matters of the Bank, within the scope of authorization of the general meeting;

(11) to determine arrangement plans for the Bank's internal management institutions, branches and personnel and positions of the managers;

(12) to appoint or dismiss the president or secretary to the Board of Directors of the Bank according to the nomination of the Chairman of the Board of Directors; appoint or dismiss senior management personnel, such as the vice-president, assistant to president and financial chief, according to the nomination of the president;

(13) to decide on remuneration and disciplinary measures of senior management personnel;

(14) to formulate basic management system and explicate the working rules for the president;

(15) to formulate proposal on amendments to the Articles of Association of the Bank;

(16) to manage the information disclosure matters of the Bank;

(17) to propose on the engagement or replacement of the accounting firm that audits the Bank to the general meeting;

(18) to listen to the work report of the president of the Bank and check the work of the president;

(19) to check the compliance with the Corporate Governance Code in the Listing Rules of the Hong Kong Stock Exchange by the Bank and the disclosure in the Corporate Governance Report; and

(20) other functions and authorities granted by laws, administrative regulations, department rules or the Articles of Association of the Bank.

(VII) Appointment of Directors

The Directors (including non-executive Directors) have a term of office of three years. Upon expiry of the term, they may be re-elected. But the cumulative term of office for an independent non-executive Director must not exceed six years.

(VIII) Meetings of the Board of Directors

During the Reporting Period, the Bank has convened twelve meetings (including teleconference) of the Board of Directors, 80 resolutions have been considered and approved which include the consideration and approval of matters for the work report of the board of directors for 2016, final financial accounts for 2016 and financial budget plan for 2017, the annual report for 2016, profit distribution plan for 2016.

Attendance of all Directors at the meetings of the Board of Directors, meetings of special committees of the Board and general meetings in 2017 are set out in the table as follows:

	Number of meetings attended in person/attended by proxy/should be attended						
Members of the Board of Directors	Board of Directors	Strategy Committee	Risk Management Committee	Related-party Transactions Control Committee	Nomination and Remuneration Committee	Audit Committee	General Meeting of Shareholders
ZHANG Wei	12/0/12	4/0/4					5/0/5
HUO Lingbo	5/0/5						1/0/1
CHEN Man	10/1/11	4/0/4		1/0/1			4/0/4
WANG Jing	12/0/12						5/0/5
WANG Xiaoyu	12/0/12						5/0/5
LI Dongjun	11/0/11		1/0/1				4/0/4
ZHANG Caiguang	10/2/12		1/0/1				5/0/5
WU Zhengkui	8/3/11						3/0/4
GU Jie	12/0/12						5/0/5
JIANG Daxing	10/2/12			1/0/1			4/0/5
DENG Xiaoyang	10/2/12				4/0/4	6/0/6	3/0/5
NIU Sihu	12/0/12				4/0/4	6/0/6	5/0/5
JIANG Jian	12/0/12			1/0/1		6/0/6	5/0/5
CHOON Yew Khee	11/1/12						4/0/5
LIN Yanjun	10/0/10						5/0/5

(IX) Independent Non-executive Directors

The Board of Directors has complied with the requirements of the Listing Rules for the appointment of at least three independent non-executive Directors, representing at least one-third of the members of the Board of Directors, and at least one of these independent non-executive Directors has appropriate professional qualifications or expertise in accounting or financial management.

None of the independent non-executive Directors has any business or financial interests in the Bank, nor being a holder of any management position in the Bank. All current independent non-executive Directors are appointed through election for a term of three years, they may be re-elected upon expiry of the term but the cumulative term of officer shall not exceed six years.

During the Reporting Period, the independent non-executive Directors conscientiously participated in the meetings of the Board of Directors and meetings of all special committees, and provided independent and objective opinions in respect of all material decisions at the meetings of the Board of Directors and meetings of the special committees by utilizing their own professional abilities and industry experience and actively enhanced the communications with the senior management, specialized authorities and external auditor to acquire a deep understanding on the operation and management of the Bank. The independent non-executive Directors have duly performed the integrity and diligence obligations, and provided strong support to the scientific decisions of the Board of Directors and duly protected the interests of the Bank and all Shareholders.

(X) Responsibilities assumed by the Directors in the preparation of financial statements

The Directors have acknowledged their responsibilities in the preparation of financial statements of the Bank for the year ended 31 December 2017. The Directors are responsible for the supervision of the financial statements for the Reporting Period in accounting to ensure that the financial statements will reflect a true and fair view of the financial conditions, operating results and cash flows of the Bank. In preparing the financial statements for the year ended 31 December 2017, the Directors have adopted appropriate accounting policies which have been applied consistently, and prudent and reasonable judgments have been made.

(XI) Continuing professional development plan for Directors

All newly appointed Directors have been provided with comprehensive relevant materials at the first time when they are appointed to ensure they have proper understanding of the operation and business of the Bank and fully understand the duties and responsibilities of directors under requirements of the Listing Rules and the applicable laws and regulations.

The Bank has encouraged all Directors to participate in continuing professional development to develop and refresh their knowledge and skills. During the Reporting Period, Mr. Zhang Wei, Mr. Huo Lingbo, Ms. Chen Man, Mr. Wang Jing and Ms. Wang Xiaoyu as executive Directors, Mr. Li Dongjun, Mr. Zhang Caiguang, Mr. Wu Zhengkui, Ms. Gu Jie as non-executive Directors, Mr. Jiang Daxing, Mr. Deng Xiaoyang, Mr. Niu Sihu, Ms. Jiang Jian, Mr. Choon Yew Khee, and Mr. Lin Yanjun as independent non-executive Directors participated in training sessions provided by legal advisers engaged by the Bank on continuing obligations of the issuer and its directors in Hong Kong, connected transactions under the Listing Rules, the Corporate Governance Code, and the disclosure requirements of inside information.The Bank has provided briefings on the latest developments of the Listing Rules and other applicable regulatory requirements to the Directors from time to time, to ensure that the Directors will continue making contributions to the Board of Directors with comprehensive information in meeting the needs and comply with the Corporate Governance Code properly to enhance their awareness of good corporate governance practice.

(XII) Corporate governance functions of the Board of Directors

The Board of Directors is responsible for the establishment of sound corporate governance practice and procedures for the Bank. During the Reporting Period, the Board has:

(1) developed and reviewed the Bank's policies and practices on corporate governance;

(2) reviewed and monitored the training and continuing professional development of Directors and senior management;

(3) reviewed and monitored the Bank's policies and practices on compliance with legal and regulatory requirements;

(4) developed, reviewed and monitored the code of conduct for Directors and employees; and

(5) reviewed the Bank's Compliance with the Corporate Governance Code and disclosure in the corporate governance report.

(XIII) Special committees under the Board

As at the end of the Reporting Period, five special committees, including the Strategy Committee, Related-party Transactions Control Committee, Risk Management Committee, Nomination and Remuneration Committee and Audit Committee, have been established under the Board of Directors.

1. Strategy Committee

As at the end of the Reporting Period, the Strategy Committee consists of two Directors, including Mr. Zhang Wei, an Executive Director and the Chairman of the Board of Directors, who is the chairman of the committee, and Mr. Lin Yanjun, an independent non-executive Director, who is the member of the committee.

The primary duties of the Strategy Committee include: formulating the operation goals and long-term development strategies of the Bank; supervising and inspecting the implementation of annual operating plans and investment proposals; evaluating and making proposals on any major capital operations or asset operation projects of the Bank that is subject to approval of the Board of Directors; analysing and formulating proposals on any major events that may affect the development of the Bank; and any other duties authorized by the Board of Directors.

During the Reporting Period, the Strategy Committee has held four meetings for the consideration of 14 proposals, including plan for the issuance of Offshore Preference Shares, 2017-2020 Strategic Development Plan and the extension of the validity period of the A Share Offering and the relevant authorisation matters plan for the initial public offering and listing of A shares, etc.

2. Risk Management Committee

As at the end of the Reporting Period, the Risk Management Committee consists of two Directors. Mr. Zhang Caiguang, a non-executive Directors, and Mr. Choon Yew Khee, an independent non-executive Director, are the members of the committee.

The primary duties of the Risk Management Committee include: supervising the control of credit risk, market risk, operation risk and other risks by senior management of the Bank; conducting regular assessment on the risk management status of the Bank, evaluating the work procedures and efficiency of the risk control department of the Bank, providing opinions on the improvement of risk management and internal control; determining the overall risk management strategies, ascertaining the overall risk limit and reviewing material risk policies; reviewing the asset and liability management policies of the entire Bank; and any other duties authorized by the Board of Directors.

During the Reporting Period, the Risk Management Committee has convened one meeting for the consideration of 3 resolutions, including the Comprehensive Risk Management Consultation Project Planning Report of the Bank of Jinzhou Co., Ltd. etc.

3. Related-party Transactions Control Committee

As at the end of the Reporting Period, the Related-party Transactions Control Committee consists of two Directors, including Mr. Choon Yew Khee, an independent non-executive Director, and Mr. Wang Jing, an executive Director, as members.

The primary duties of the Related-party Transactions Control Committee include: managing the related-party transactions ofthe Bank according to the requirements of laws and regulations, and formulating the corresponding related-party transactions management system; identifying related party transaction of the Bank according to the requirements of laws and regulations, and reporting to the Board of Directors, the Board of Supervisors and relevant China banking regulatory agencies; reviewing the related-party transactions of the Bank according to the requirements of laws and regulations and in accordance with commercial principles at arm's length; formulating written reports regarding fairness of major related-party transactions and particularly significant related-party transactions and the implementation status of our internal approval procedures by the independent non-executive Director; and any other duties authorized by the Board of Directors.

During the Reporting Period, the Related-party Transactions Control Committee has convened one meeting for the consideration of 1 resolution regarding the Plan of Granting Credit Facilities to Related Enterprises for 2017.

4. **Nomination and Remuneration Committee**

As at the end of the Reporting Period, the Nomination and Remuneration Committee consists of three Directors, including Mr. Niu Sihu, an independent non-executive Director, who is the chairman of the committee, Mr. Deng Xiaoyang, and Mr. Lin Yanjun, independent non-executive directors, who are members of the committee.

The primary duties of the Nomination and Remuneration Committee include: studying, formulating, reviewing and proposing the proposals in connection with the remuneration plans for Directors and senior management members, and supervising the implementation of such proposals; formulating the procedures and criteria for selecting and appointing Directors and senior management members; conducting preliminarily reviews on the qualifications and conditions of candidates for Directors and senior management members and making proposals to the Board; formulating the appraisal criteria for Directors and senior management members, proceeding with implementation and making proposals to the Board; searching for qualified candidates for Directors and senior management members; and any other duties authorized by the Board.

During the Reporting Period, the Nomination and Remuneration Committee has convened four meetings for the consideration of 22 resolutions, including the appointment of vice chairman of the Bank, change of the Board of Directors, the appointment of Wang Xin (王鑫) as the vice president and the appointment of Lu Siwei as assistant to the president of the Bank, etc.

The board diversity policy of members of the Bank is summarized as follows: The Board of Directors is of the view that having a diversified composition of members in the Board of Directors will improve the decision-making capability of the Board of Directors more effectively to elevate the corporate governance level. The Board of Directors and the Nomination and Remuneration Committee will consider a range of factors in selecting candidates, including but not limited to sex, age, cultural and education background, race, professional experience, skills, knowledge and number of years of service, in order to achieve diversification in the membership of the Board of Directors. The Nomination and Remuneration Committee will report the composition of the Board of Directors from the perspective of diversification of the Board on annual basis and supervise the implementation of this policy.

As at the date of this annual report, the Board of Directors is comprising 15 Directors, including 6 female persons, 2 person who is a resident in Hong Kong. The Board of Directors has achieved diversification in terms of sex, nationality, professional background and skills of the Board members.

5. **Audit Committee**

As at the end of the Reporting Period, the Audit Committee consists of three Directors, including Mr. Deng Xiaoyang, an independent non-executive Director, who is the chairman of the committee, Mr. Niu Sihu and Ms. Jiang Jian, independent non-executive Directors, who are members of the committee.

The primary duties of the Audit Committee include: inspecting the accounting policies, financial condition and financial reporting procedures of the Bank; assessing the risk and compliance status of the Bank; taking charge of the annual audit workof the Bank, formulation reports regarding the authenticity, integrity and accuracy of such audited information and reporting the same to the approval of the Board; reviewing the internal control system of the Bank and auditing major related-party transactions; and any other duties authorized by the Board.

During the Reporting Period, the Audit Committee has convened six meetings for the consideration of 15 resolutions, including 2016 annual report, Final Accounts for 2016 and Financial Budget for 2017 of the Bank of Jinzhou, 2016 Internal Audit Work Report, 2017 interim report.

V. Board of Supervisors

(I) Composition of the Board of Supervisors

At of the end of the Reporting Period, the Board of Supervisors consists of 13 Supervisors, including 5 employee representative Supervisors, being Mr. Cai Hongguang (Chairman of Board of Supervisors), Mr. Dai Shujun (Vice Chairman of Board of Supervisors), Ms. Cao Wenqing, Ms. Li Wei and Ms. Li Xiu; 3 shareholder representative supervisors, namely Mr. He Baosheng, Mr. Chen Tanguang and Ms. He Mingyan; 5 External Supervisors being Mr. Jing Fei, Ms. Chen Yingmei, Ms. Nie Ying, Ms. Li Tongyu and Ms. Zhao Hongxia.

On 29 December 2017, upon consideration and approval at the 2017 second extraordinary general meeting, the Bank elected Mr. Jiang Daxing and Mr. Deng Xiaoyang as the external supervisors of the Bank for a term of office commencing on 11 February 2018 (the date Mr. Jiang Daxing and Mr. Deng Xiaoyang retired as independent non-executive Directors) until the expiration of the fifth session of the Board of Supervisors.

(II) Chairman of the Board of Supervisors

Mr. Cai Hongguang is the Chairman of the Board of Supervisors, and is responsible for organizing and performing the duties of the Board of Supervisors.

(III) Changes of Supervisors

For changes of Supervisors, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Organizations – Changes in Directors, Supervisors and Senior Management Members" in this annual report.

(IV) Meetings of the Board of Supervisors

During the Reporting Period, twelve meetings have been convened by the Board of Supervisors, primarily for the consideration and approval of 78 resolutions, including the Work Report of the Board of Supervisors for 2016, Annual Report for 2016, Report of Final Accounts, Profit Distribution Plan, engagement of accounting firm and Performance Evaluation Report for Directors, Supervisors and senior management, etc.

Members of the Board of Supervisors	Number of meetings attended in person/attended by proxy/should be attended		
	Board of Supervisors	Nomination Committee	Supervising Committee
NING Yongfang	11/0/11		
XU Fei	11/0/11		
LUO Yan	11/0/11	2/0/2	
SHI Hongmiao	11/0/11		
LI Xiu	12/0/12		
TIAN Deying	10/1/11		7/0/7
HE Baosheng	12/0/12		
ZHAO Lanying	11/0/11		
JING Fei	12/0/12		7/0/7
CHEN Yingmei	12/0/12	3/0/3	
NIE Ying	11/1/12		7/0/7
LI Tongyu	12/0/12		
ZHAO Hongxia	12/0/12	3/0/3	
CAI Hongguang	1/0/1		
DAI Shujun	1/0/1		
CAO Wenqing	1/0/1		
LI Wei	1/0/1		
CHEN Tanguang	1/0/1		
HE Mingyan	1/0/1		

(V) Committees under the Board of Supervisors

As at the end of the Reporting Period, the Bank has established two committees under the Board of Supervisors, being the Nomination Committee and the Supervising Committee. The committees will operate in accordance with the terms of reference formulated by the Board of Supervisors.

1. Nomination Committee

As at the end of the Reporting Period, the Nomination Committee consists of two Supervisors, being Ms. Li Xiu and Ms. Zhao Hongxia. The primary duties of the Nomination Committee include the following:

Making proposals to the Board of Supervisors in relation to the scale and composition of the Board of Supervisors; studying the procedures and criteria for selecting and appointing Supervisors and making proposals to the Board of Supervisors; searching for qualified candidates for Supervisors; conducting preliminarily reviews on the qualifications and conditions of candidates for Supervisors nominated by Shareholders and making proposals to the Board of Supervisors; and any other duties authorized by the Board of Supervisors.

During the Reporting Period, the Nomination Committee has convened three meetings for the consideration of 21 resolutions, including the change of the Board of Supervisors, the appointment of Wang Xin (王鑫) as vice president, the appointment of Lu Siwei as assistant to the president, the nomination of Cai Hongguang as the chairman of the Board of Supervisors, the nomination of Dai Shujun as the vice chairman of the Board of Supervisors, and the nomination of members of special committes under the Board of Supervisors., etc.

2. Supervising Committee

As at the end of the Reporting Period, the Supervising Committee consists of two Supervisors, being Ms. Li Wei and Ms. Nie Ying. The primary duties of the Supervising Committee include the following:

Drafting specific plans on supervising and examining the Bank's financial activities and implement such plans; supervising the Board to establish steady business operation principle and values as wells as practicable development strategy; drafting off-office auditing plans for Directors and senior management; conducting supervising and inspection on the Bank's business operation, risk management and internal control; and any other duties authorized by the Board of Supervisors.

During the Reporting Period, the Supervising Committee has convened seven meetings for the consideration of 19 resolutions, including annual report for 2016, Profit Distribution Plan for 2016, interal audit report for 2016, 2016 Remuneration and Policy Evaluation Report and 2016 Consumer Protection Work Report, etc.

(VI) Work performed by External Supervisors

During the Reporting Period, External Supervisors have worked for more than 15 days in the Bank, their participation in the number of meetings of the Board of Supervisors was in line with the relevant requirements in the "Guidance for the Independent Director and External Supervisor Systems for Joint Stock Commercial Banks (《股份制商業銀行獨立董事和外部監事制度指引》)" and the Articles of Association, they have conscientiously considered each of the resolutions, expressed their opinions independently, professionally and objectively; they have actively participated in the inspection and investigative research projects organized by the Board of Supervisors diligently in a responsible manner, and have performed well in their supervision duties.

VI. Senior Management

The senior management is the executive organization of the Bank, and is responsible to the Board of Directors and supervised by the Board of Supervisors. The division of powers between the senior management and the Board of Directors is strictly executed in accordance with the corporate governance documents, including the Articles of Association.

The president, Vice President, assistant to president, head of finance, secretary to the Board and other officers designated by the Board of Directors are the members of the senior management of the Bank.

The Bank has one president, who is nominated by the Chairman of the Board of Directors, appointed or dismissed by the Board of Directors, and exercises the following duties and authorities:

1. to be in charge of daily operation and management of the Bank, organizing the implementation of the resolutions of the Board of Directors and to report his/her work to the Board of Directors;

2. to arrange the implementation of the annual operation plans and investment proposals approved by the Board of Directors;

3. to draft plans for the establishment, dissolution or merger of our internal management structure and branches;

4. to formulate the basic management system and specific rules and procedures;

5. to propose to the Board of Directors the appointment or dismissal of other senior management members except for those shall be proposed by the Chairman of the Board of Directors and be appointed or dismissed by the Board of Directors;

6. to appoint or dismiss management members except for those shall be proposed by the Chairman of the Board of Directors and be appointed or dismissed by the Board of Directors;

7. to authorize senior management members, persons in charge of internal functional departments and branches to engage in operating activities;

8. to decide on the remuneration, welfares and disciplinary measures for the employees of the Bank;

9. to decide on the appointment and dismissal of employees of the Bank; and

10. other functions and powers as prescribed in the Articles of Association and authorized by the Board of Directors and the Chairman of the Board of Directors.

The president who is not a Director shall be present at meetings of the Board of Directors, but have no voting rights at such Board meetings.

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

Remuneration bands	Number of Persons
Below RMB1,000,000	4
RMB1,000,000 - RMB2,000,000	3
RMB2,000,000 - RMB3,000,000	1

VII. Delegation of Powers Authorized by the Board of Directors

The management represented by the Board of Directors and the president will perform their respective rights in accordance with the duties and responsibilities defined in the Articles of Association. In addition to executing resolutions of the Board of Directors,the management is responsible for daily operation and management activities. Significant capital expenditure projects may only be implemented after their annual budget proposals having been submitted to the Board of Directors and obtained approvals, for items not included in the budget or for items included in the budge but without breakdown in expenses, the operating management authorized by the Board of Directors will decide on such items.

VIII. Chairman of The Board and the President

The roles and duties of the Chairman of the Board of Directors and the president of the Bank are assumed by different persons.

Mr. Zhang Wei, an executive Director, is the Chairman of the Board of Directors, he is responsible for the overall strategic planning and leadership of the Board of Directors to ensure the effective operation of the Board and conduct timely discussions on all significant matters. Ms. Liu Hong, an Executive Director, is the President and is responsible for business development and overall business operation and management of the Bank. The qualification of Ms. Liu Hong as the president was approved by Liaoning Regulatory Bureau of CBRC with effect from 27 February 2017. Mr. Huo Lingbo, an Executive Director and Executive Vice President, acted for President's duties and participated the usual activities during the period before her qualification of appointment was approved by Liaoning Regulatory Bureau of CBRC. The president shall be nominated by the Chairman of the Board of Directors, appointed by the Board of Directors, reports to the Board of Directors and performs his duties and responsibilities in accordance with the provisions of the Articles of Association and the authorization by the Board of Directors. The roles of the Chairman of the Board and the president are established with inter-dependence and clear delineation of duties. The management is responsible for the daily operation and management.

IX. Securities Transactions by Directors And Supervisors

The Bank has adopted, in respect of securities transactions by Directors, Supervisors and senior management members, a code of conduct on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiries to all Directors and Supervisors, all Directors and Supervisors have confirmed that they have complied with such code of conduct during the Reporting Period.

X. External Auditors and Remuneration of Auditors

The Bank engaged KPMG and KPMG Huazhen LLP as the international and domestic auditors of the Bank for 2017, respectively. The fees as agreed to be paid by the Bank for the audit of the financial statements for the year ended 31 December 2017 and for the review of the financial statements for the period ended 30 June 2016 are RMB5.0 million.

XI. Risk Management and Internal Control

Risk management and Internal control involve and are jointly enforced by the Board of Directors, Board of Supervisors, senior management members and all employees of the Bank, through the formulation and implementation of systematic systems, flow processes and methods to realize the Bank's risk management and the control of the targets via the dynamic process and mechanism. The Bank has established an internal control system covering the elements of internal control environment, risk identification and assessment, internal control activities, internal supervision and information and communication according to laws and regulations including the Company Law of the People's Republic of China （《中華人民共和國公司法》）, PRC Banking Supervision and Regulatory Law （《中華人民共和國銀行業監督管理法》）, Commercial Bank Law （《商業銀行法》）, and rules including the Guidelines on Internal Control of Commercial Banks （《商業銀行內部控制指引》） and Basic Norms of Corporate Internal Control （《企業內部控制基本規範》）.

(I) Procedures for identification, assessment and management of material risks

Based on the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) and its schedules issued by the CBRC, risks and relevant terminology defined by the Basel Committee, practice of the domestic and overseas peers as well as its own situation, the Bank identifies, measures and controls various overall quantitative and non-quantitative risks which may arise from the interaction between business strategies, product portfolios, client demands and the macro-economic environment.

Taking into account the capital occupancy based on risk types, risks of banks determined by regulators and capital regulatory requirements together with results from identifying and assessing risk events, the Bank collects and publishes risk warnings, draws up risk event examples, identifies, collects and assesses risk events and then determines material risks for the purpose of identifying its material risks, which include credit risk, operational risk,market risk, liquidity risk, interest risk, exchange rate risk, etc. and subsequently making assessment and analysis on them with risk measurement approaches and techniques.

(II) Main features of risk management and internal control systems

The risk management and internal control of the Bank follows the principles of full coverage, balance of powers, prudence and matching to realize the following objectives: ensure the consistent implementation of the relevant laws, regulations and rules of the PRC and the various systems of the Bank; ensure the realization of the development strategies and operation targets of the Bank; ensure the effectiveness of risk management and internal control of the Bank; ensure the truth, accuracy, completeness and timeliness of the business records, accounting information, financial information and other management information of the Bank.

With reference to leading domestic and foreign banks, the Bank places great importance to the implementation of the Basic Norms of Internal Control for Enterprises(《企業內部控制基本規範》) and its relevant guidelines and the Guidelines for Internal Control of Commercial Banks(《商業銀行內部控制指引》) in a consistent manner. By relentless risk management efforts and continuous fine-tuning of the internal control structure, a risk management and internal control management system equipped with well-defined duties and responsibilities has been built up, which clarifies risk management and internal control management duties of the Board of Directors, the Board of Supervisors and senior management and other defense lines. An adequate and effective risk management and internal control system has been formulated to run smoothly.

(1) The Board of Directors is responsible for ensuring the establishment and implementation of a sufficiently effective risk management and internal control system by the Bank and continuous supervision of the Bank's risk management and internal control system;

(2) The Board of Supervisors is responsible for supervising the Board of Directors and the senior management members to improve the internal control system; responsible for supervising the Board of Directors, senior management members to perform internal control duties. The senior management members is responsible for executing decisions of the Board of Directors; responsible for establishing systematic systems, flow processes and methods in accordance with the acceptable risk levels determined by the Board of Directors, and taking the corresponding risk management and internal control measures; responsible for establishing and improving the internal organization structure to ensure the effective performance of various risk management and internal control duties; responsible for arranging the monitoring and evaluation of the sufficiency and effectiveness of the risk management and internal control system;

(3) The Risk & Compliance Department of the Bank is the functional department for internal control management, which leads the coordination and planning, organization and implementation, inspection and evaluation of the risk management and internal control system;

(4) The Internal Audit Department of the Bank performs the supervision function of risk management and internal control, it is responsible for auditing the sufficiency and effectiveness of the risk management and internal control of the Bank, reporting timely on the problems discovered during auditing and supervising the implementation of rectifications; and

(5) The business departments of the Bank are responsible for participating in the formulation of the business systems and operation flow processes relevant to their own duties; responsible for strict implementation of the requirements of the relevant systems; responsible for organizing and commencing supervisory inspections; responsible for reporting deficiencies existing in risk management and internal control in accordance with the scheduled timelines and reporting routes and making arrangements for the implementation of rectification measures.

(III) Responsibility of the Board of Directors on risk management

In accordance with laws and regulations including the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) and relevant requirements of the Hong Kong Stock Exchange, the Board of Directors of the Bank has formulated and run the risk management and internal control system. It is also responsible for the prudent operation of the Bank within the legal and policy framework and determination and establishment of acceptable risk levels. It also takes roles of ensuring our senior management members adopt necessary risk control measures as well as supervising the senior management members to monitor and assess the sufficiency and effectiveness of the risk management and internal control system.

(IV) Insider information management

The Bank places great importance on insider information management. In order to strengthen relevant confidentiality and protect the legitimate interest of investors by maintaining fairness with regard to information disclosure, since its implementation of relevant efforts, 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 in accordance with domestic and offshore laws and regulations such as the Company Law of the People's Republic of China(《中華人民共和國公司法》), the Securities Law of the People's Republic of China(《中華人民共和國證券法》), Rules on Establishment of Insider Registration and Management Systems of Listed Companies(《關於上市公司建立內幕信息知情人登記管理制度的規定》), Measures on Commercial Bank Information Disclosure(《商業銀行信息披露辦法》) and the Listing Rules and other regulatory documents including laws and regulations and listing rules or other regulatory documents of places and stock exchanges where the securities of the Bank are listed.

(V) Evaluation of effectiveness of internal control system

At the end of 2017, the Board of Directors continues to supervise the risk management and internal control system and ensures to review the effectiveness of risk management and internal control systems of the Banks and its subsidiaries. The Board of Directors has completed the review for the years of 2017. The Board of Directors considers that the risk management and internal control system formulated and implemented by the Bank is effective and adequate. The risk management and internal control system of the Bank is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In addition, during the year ended 31 December 2017, the Board of Directors has also reviewed the effectiveness of the risk management and internal control systems of the Bank through the Risk Management Committee in accordance with code provisions C.2.1 and C.2.2 of the Corporate Governance Code, including whether the resources, the qualifications and experience of staff of the Bank in the accounting, internal auditing and financial reporting areas are sufficient, and whether the training programs for staff and the budget are sufficient.

XII. Joint Company Secretaries

At the end of the Reporting Period, the joint company secretaries are Mr. Wang Jing, an executive Director, and Ms. Leung Wing Han Sharon of SW Corporate Services Group Limited. The key contact person between the Bank and Ms. Leung Wing Han Sharon is Mr. Sun Jing of the Bank. According to Rule 3.29 of the Listing Rules, Mr. Wang Jing and Ms. Leung Wing Han Sharon have attended professional training of not less than 15 hours during the Reporting Period.

XIII. Information Disclosure

(I) Effective Communication with Shareholders

The Bank regards communication with Shareholders as highly important, and has enhanced understanding and interflow with Shareholders through a range of channels such as the general meeting, reception for visitors, paying on-site visits and telephone consultations.

(II) Amendment to Articles of Association

On 25 May 2017, the Bank convened the 2016 Annual General Meeting and approved amendments to the relevant articles of association for the issue of Offshore Preference Shares. For details, please refer to the circular of the Bank dated 18 April 2017.

XIV. Rights of Shareholders

(I) Convening of extraordinary general meeting at the request of Shareholders

The Bank strictly adheres to the regulatory laws and regulations and the basic system of corporate governance to protect the rights of Shareholders in practice. Shareholders who wish to convene an extraordinary general meeting or a class meeting may follow the procedures as set out below:

Shareholders who individually or jointly hold more than 10% of the shares of the Bank may sign one or more copies of a written request with the same format and content for submission to the Board of Directors requesting for the convening of an extraordinary general meeting or a class meeting of Shareholders, with a description on the issues to be addressed. The Board of Directors shall provide a written reply on its consent or disagreement to the convening of an extraordinary general meeting or a class meeting of Shareholders in response within 10 days upon receipt of the request in accordance with the requirements of the laws, administrative regulations and Articles of Association;

If the Board of Directors has agreed to convene an extraordinary general meeting or a class meeting of Shareholders, it should issue a notice of general meeting or class meeting of Shareholders within 5 days after the decision has been made by the Board of Directors, any change made to the original request in the notice should obtain consent from the relevant Shareholders;

If the Board of Directors has disagreed to convene an extraordinary general meeting or a class meeting of Shareholders, or has not issued a reply within 10 business days after receipt of the request, then Shareholders who individually or jointly hold more than 10% of the shares of the Bank are entitled to make a proposal to the Board of Supervisors to request for convening an extraordinary general meeting, and the proposal made to the Board of Supervisors must be in writing;

If the Board of Supervisors has agreed to convene an extraordinary general meeting or a class meeting of Shareholders, it should issue a notice of general meeting or class meeting of Shareholders within 5 days after receipt of the request, any change made to the original request in the notice should obtain consent from the relevant Shareholders;

If the Board of Supervisors has not issued a notice of general meeting or class meeting of Shareholders within the prescribed period, the Board of Supervisors is deemed not to convene and preside over a general meeting or class meeting of Shareholders, Shareholders who individually or jointly hold more than 10% of the shares of the Bank for 90 days consecutively may convene and preside over a general meeting or class meeting by themselves.

(II) Proposals for General Meetings

In general meetings of Shareholders convened by the Bank, the Board of Directors, Board of Supervisors and Shareholders who individually or jointly hold more than 3% of the Shares are entitled to submit resolution proposals to the Bank.

Shareholders who individually or jointly hold more than 3% of the Shares may submit a provisional proposal in writing to the convener 10 days before the date for convening the general meeting. The convener shall issue a supplementary notice of general meeting within two days after receipt of such proposal and make an announcement on the content of the provisional proposal.

XV. Investor Relations

For enquiries made to the Board of Directors by Shareholders and investors, please contact to:
Office of the Board of Directors of Bank of Jinzhou Co., Ltd.
No. 68 Keji Road, Jinzhou City, Liaoning Province, PRC
Telephone: +86-416-3220002
Facsimile: +86-416-3220003
E-mail: webmaster@jinzhoubank.com
Principal place of business of the Bank in Hong Kong: 18/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

Investors may view this annual report on the website of the Bank (www.jinzhoubank.com) and the designated website of the Hong Kong Stock Exchange (www.hkexnews.hk)

XVI. Enquires from Shareholders

If the Shareholders have any enquiries on matters relating to the H Shares held, such as share transfer, change of address, reporting for loss of share certificates and dividend warrants, etc., please send the enquiries in writing to the following address:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, No.183 Queen's Road East, Wan Chai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990

If the Shareholders have any enquiries on matters relating to the Domestic Shares held, such as share transfer, change of address, reporting for loss of share certificates and dividend warrants, etc., please send the enquiries in writing to the following address:

Office of the Board of Directors of Bank of Jinzhou Co., Ltd.
No. 68 Keji Road, Jinzhou City, Liaoning Province, PRC
Telephone: +86-416-3220002
Facsimile: +86-416-3220003

The Board is pleased to present the Directors' report together with the audited financial statements of the Bank for the year ended 31 December 2017.

I. Principal Business Overview

The Bank is engaged in a range of banking services and related financial services. The information on business review of the Bank during the Reporting Period was set out in "Management Discussion and Analysis" of this annual report.

II. Profits and Dividend

The Bank's revenue for the Reporting Period and the Bank's financial position as at the same date are set out in the financial statements for this year.

The Board has proposed the payment of a cash dividend of RMB0.16 per share (tax inclusive) for the year ended 31 December 2017 in aggregate amount of RMB1,085,058,509.44 (tax inclusive) to all Shareholders, subject to the Shareholders' approval at the annual general meeting of the year 2017. Such proposed dividend will be denominated in RMB. Dividends payable to holders of domestic shares shall be paid in RMB, whereas dividends payable to holders of H shares shall be paid in HK$. The exchange rate of RMB to HK$ to be adopted shall be the average middle exchange rates of the five business days preceding and including the date of declaration of such dividends (being Tuesday 29 May 2018, the date of the annual general meeting of 2017) as announced by the PBOC.

The dividend distribution plan will be submitted to the annual general meeting of 2017 for consideration and approval. If such proposal is approved at the annual general meeting of 2017, the dividend will be distributed to holders of domestic shares and holders of H shares whose names appear on the register of members on Friday 8 June 2018 by the Bank. Such dividend is expected to be paid to Shareholders on or before Friday 20 July 2018.

According to the Enterprise Income Tax Law of the PRC (《中國企業所得稅法》) and its Regulation on the Implementation effective from 1 January 2008, the Bank shall withhold and pay the enterprise income tax at a rate of 10% for the non-resident enterprise Shareholders whose names appear on the H Share Register of the Bank on Friday 8 June 2018. For the requirements on tax relief, please refer to paragraph 26 of this section.

The amounts of cash dividends and ratios of cash dividends to profit for the year for the last three years:

Expressed in thousands of Renminbi, unless otherwise stated	2016	2015	2014
Cash dividend (tax inclusive)	1,017,242	780,518	528,268
As a percentage of profit for the year (%)	12.4	15.9	25.0

III. Changes in the Reserves

Details of our changes in the reserves and the distributable profit reserve during the Reporting Period were set out in "Consolidated Statements of Changes in Equity" in this annual report.

IV. Summary of Financial Information

The summary of the operating results and assets and liabilities of the Bank for the five years as of the reporting period is set out in"Financial Highlights"of this annual report.

V. Donations

The Bank made charity and other donation of RMB182.89 million during the Reporting Period in aggregate.

VI. Property and Equipment

Details of the changes in property and equipment of the Bank for the Reporting Period were set out in note 26 to the financial statements in this annual report.

VII. Retirement Benefits

Details of the retirement benefits provided by the Bank to employees are set out in note 34 to the financial statements in this annual report.

VIII. Substantial Shareholders

Particulars of the substantial Shareholders as at the end of the Reporting Period are set out in "Changes in Share Capital and Particulars of Shareholders–Interests and Short Positions of Substantial Shareholders and Other Persons" of this annual report.

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

During the Reporting Period, neither of the Bank and any of its subsidiaries had purchased, sold or redeemed any listed securities of the Bank.

X. Pre-emptive Rights

There are no provisions in the Articles of Association and the relevant PRC laws for granting pre-emptive rights to Shareholders. The Articles of Association provides that the Bank may increase its capital by offering new Shares to non-specific investors for subscription, placing or distributing new Shares to its existing Shareholders, issuing new Shares to specific mandate, transferring capital reserve to increase capital or by any other ways permitted by laws and administrative regulations.

XI. Major Customers

At the end of the Reporting Period, the five largest depositors and the five largest borrowers of the Bank accounted for less than 30% of total deposits and total loans and advances.

XII. Use of Proceeds

On 27 October 2017, the Bank issued non-accumulative perpetual Offshore Preference Shares of US$1.496 billion. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 30 October 2017. The par value of the Offshore Preference Shares was RMB100 each with an issue price of US$20 per share. The issued shares amounted to 74,800,000 shares in total, all of which were paid-up and issued in US dollars. After deducting related fees and expenses, they were all used to replenish the other tier 1 capital of the Bank.

XIII. Share Capital

During the Reporting Period, the Bank did not issue any ordinary shares. The details of the issuance of preference shares were set out in the chapter named "Particulars of the Preference Shares" in this annual report.

Details of the changes in share capital of the Bank during the Reporting Period are set out in note 40 to the financial statements in this annual report.

XIV. Directors, Supervisors and Senior Management Members

Particulars of the Directors, Supervisors and senior management members of the Bank are set out in "Directors, Supervisors, Senior Management, Employees and Organizations" of this annual report.

XV. Confirmation of Independence by the Independent Non-executive Directors

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

XVI. Interests and Short Positions of Directors, Supervisors and Chief Executive in Shares, Underlying Shares and Debentures of the Bank and its Associated Corporations

As at the end of the Reporting Period, the interests or short positions of the Directors, the Supervisors and the chief executive of the Bank in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to t he Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules are as follows:

Name	Position in the Bank	Class of Shares	Nature of interest	Number of Shares [1]	Percentage of Domestic Shares (%) [1]	Percentage of the total share capital of Ordinary Shares of the Bank (%) [1]
ZHANG Wei	Chairman, Executive Director	Domestic Shares	Beneficial owner	374,670(L)	0.00879	0.00552
HUO Lingbo	Vice Chairman, Executive Director, Executive Vice President	Domestic Shares	Beneficial owner	282,635(L)	0.00663	0.00417
		Domestic Shares	Interest of spouse [2]	86,472(L)	0.00203	0.00128
LIU Hong	Executive Director, President	Domestic Shares	Beneficial owner	91,541 (L)	0.00215	0.00135
WANG Jing	Executive Director, Vice President	Domestic Shares	Beneficial owner	81,679(L)	0.00192	0.00120
WANG Xiaoyu	Executive Director, Chief Financial Officer	Domestic Shares	Beneficial owner	71,027(L)	0.00167	0.00105
CAI Hongguang	Chairman of Board of Supervisors, Employee Representative Supervisor	Domestic Shares	Beneficial owner	292,635(L)	0.00686	0.00432
DAI Shujun	Vice chairman of Board of Supervisors, Employee Representative Supervisor	Domestic Shares	Beneficial owner	124,419(L)	0.00292	0.00183
LI Wei	Employee Representative Supervisor	Domestic Shares	Beneficial owner	69,026(L)	0.00162	0.00102
LI Xiu	Employee Representative Supervisor	Domestic Shares	Beneficial owner	55,958(L)	0.00131	0.00083
HE Baosheng	Shareholder Representative Supervisor	Domestic Shares	Interest of controlled corporation [3]	10,000,000(L)	0.23451	0.14746

Notes:

(1) As at the end of the Reporting Period, the Bank issued 6,781,615,684 ordinary shares, including 4,264,295,684 domestic shares and 2,517,320,000 H shares. "L" stands for long position.

(2) Pursuant to the SFO, Mr. Huo Lingbo was deemed to be interested in the entire equity held by his spouse.

(3) Such Shares are held by Jinzhou Jinhua Co., Ltd. (錦州錦華股份有限公司), which is in turn held by Mr. He Baosheng as to 46.77%. Under the SFO, Mr. He Baosheng is deemed to be interested in all the Shares held by Jinzhou Jinhua Co., Ltd. (錦州錦華股份有限公司).

Save as disclosed above, none of the Directors, the Supervisors and the chief executive of the Bank held any interests or short positions in the Shares, underlying Shares and debentures of the Bank or its associated corporations at the end of the Reporting Period.

XVII. Relationships between Directors, Supervisors and Senior Management Members

There are no relationships between each of the Directors, Supervisors and senior management members of the Bank, including financial, business, family or other material/relevant relationships.

XVIII. Arrangements to Purchase Shares or Debentures

At no time during the Reporting Period was the Bank, its holding company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors and Supervisors of the Bank or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

XIX. Interests of Directors and Supervisors in Material Transactions, Arrangements or Contracts and Service Contracts

Saved for the continuing connected transactions and material related party transactions disclosed in this annual report, none of the Directors or Supervisors (or their connected entities) had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance of the Bank or its subsidiaries subsisting during or at the end of the Reporting Period. None of the Directors and Supervisors has entered into a service contract with the Bank that cannot be terminated by the Bank or its subsidiaries within one year without payment of compensation (other than statutory compensation).

XX. Management Contract

During the Reporting Period, there was no any contract in relation to the management or administration of the whole or any substantial part of business of the Bank or its subsidiaries.

XXI. Interests of Directors and Supervisors in Competing Businesses

During the Reporting Period, none of the Directors and Supervisors has any interest in a business that competes, or is likely to compete, directly or indirectly, with the business of the Bank.

XXII. Corporate Governance

The Bank is committed to maintaining a high level of corporate governance. Details of the Bank's corporate governance are set out in the Corporate Governance Report of this annual report.

XXIII. Connected Transactions

Transactions between the Bank and the Bank's connected persons (as defined under the Listing Rules) and certain third parties specified under the Listing Rules constitute connected transactions of the Bank under Chapter 14A of the Listing Rules. However, as such connected transactions were entered into in the ordinary and usual course of business and on normal commercial terms or better, they can be fully exempted from Shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules. The Bank has reviewed all of its connected transactions and confirmed that it had complied with the requirements under Chapter 14A of the Listing Rules.

The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard 24, "Related Party Disclosures", and its interpretations by the International Accounting Standards Board. Certain related party transactions set out in note 48 to the financial statements in this annual report also constitute fully exempt connected transactions or continuing connected transactions as defined under the Listing Rules, but none constitute any discloseable connected transaction as defined under the Listing Rules.

XXIV. Remuneration Policies for Directors, Supervisors and Senior Management Members

Under the guidance of the relevant policies of the PRC, the Bank endeavors to improve its performance evaluation system for Directors, Supervisors and senior management members.

The remuneration system for the Directors, Supervisors and senior management members of the Bank adheres to the principle of unifying their responsibilities, authorities and interests, combing incentives and restraints and focusing on both short-term and long-term incentives. The Bank insists on conducting remuneration system reform complementary with the relevant reform and promoting the marketization, monetization and standardization of the income allocation of the Bank's senior management. The Bank implements the remuneration system with the remuneration comprising basic salary, performance bonus, mid-to-long term incentives and allowances.

XXV. Public Float

Based on the public information available to the Bank and to the knowledge of the Directors, as at the date of this annual report, the Bank has maintained sufficient public float as required by the Listing Rules.

XXVI. Tax Relief (H Shareholders)

Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (關於國稅發[1993] 045號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348), the Bank shall withhold and pay the individual income tax for non-resident individual Shareholders.

For those non-resident individual Shareholders who reside in Hong Kong, the Macau Special Administrative Region of the PRC and other countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of 10% (applicable in the case of distributing cash dividends to the residents thereof), the Bank shall withhold the individual income tax at the rate of 10% for such Shareholders.

For those non-resident individual Shareholders who reside in countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of less than 10% (applicable in the case of distributing cash dividends to the residents thereof), the Bank shall withhold the individual income tax at the rate of 10% for such Shareholders. Should such Shareholders demand that amount in excess of the individual income tax payable under the taxation treaty be refunded, the Bank shall apply for the refund from the relevant inland revenue departments, provided however that such Shareholders have submitted relevant documents in accordance with the requirements of the Administrative Measures on Enjoying Treatment under Taxation Treaties by Non-residents (Trial) (非居民享受稅收協議待遇管理辦法 (試行)) (Guo Shui Fa [2009] No. 124) within a stipulated time frame.

For non-resident individual Shareholders who reside in countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of more than 10% but less than 20% (applicable in the case of distributing cash dividends to the residents thereof), the Bank shall withhold and pay the individual income tax for such Shareholders at the applicable rate as stipulated in the said taxation treaty.

For non-resident individual Shareholders who reside in countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of 20% (applicable in the case of distributing cash dividends to the residents thereof) or that have not entered into any taxation treaty with the PRC and otherwise, the Bank shall withhold and pay the personal income tax at a rate of 20% for such Shareholders.

XXVII. Auditors and Review of Annual Results

KPMG Huazhen LLP was engaged by the Bank as the auditors for the PRC general accepted accounting principles ("PRC GAAP") financial statements of the Bank for 2017. KPMG was engaged by the Bank as the auditors for the International Accounting Standards ("IAS") financial statements of the Bank for 2017. There is no change in the Bank's auditors in the preceding three years.

XXVIII. Permitted Indemnity Provision

There is no permitted indemnity provision was or is in effect which benefit for the Directors of the Bank (whether entered into by the Bank or not) or its associates (entered into by the Bank) at any time during the Reporting Period and up to the date of this annual report.

XXIX. Major Risks and Uncertainties

Major risks and uncertainties faced by the Bank include credit risk, operational risk, market risk and liquidity risk. By promoting comprehensive risk management, continuously refining the systems, enriching working and operating means and improving technologies, the Bank has effectively enhanced its risk management capability. For details, see "Management Discussion and Analysis-Risk Management" of this annual report.

XXX. Future Development of Business

Please refer to "Management Discussion and Analysis-Environment and Outlook" and "Management Discussion and Analysis-Development Strategies" of this annual report for further details.

XXXI. Key Financial Performance Indicators and Analysis

At the end of the Reporting Period, the total assets of the Bank amounted to RMB723.418 billion, representing a year-on-year increase of 34.2%; the net loans and advances to customers amounted to RMB209.085 billion, representing a year-on-year increase of 71.5%; the non-performing loan ratio was 1.04%; the balance of deposits from customers of the Bank amounted to RMB342.264 billion, representing a year-on-year increase of 30.2%. During the Reporting Period, operating income of the Bank amounted to RMB 18.806 billion, representing a year-on-year increase of 14.6%; and the net profit amounted to RMB9.090 billion, representing a year-on- year increase of 10.9%.

XXXII. Environmental Protection Policy and Implementation

The Bank places great emphasis on its own environmental and social performance by integrating the banking operation and management with social responsibilities dynamicly, actively supporting green credit business, increasing its support on green economy, low-carbon economy and recycling economy and strictly controlling the "High-pollution, High-energy-consumption and Overcapacity" industries. In addition, the Bank implements initiatives including green office, energy-saving building, green procurement and water and electricity saving, adheres to the philosophy of "Thrift business operation (勤儉辦行)", promotes energy saving and emission reduction and practices economically to enhance the level of intensive management.

XXXIII. Compliance with Laws and Regulations

The Board paid close attention to the policies and regulations in relation to compliance with laws and regulatory requirements. The Bank has engaged domestic and overseas legal counsels ensure that transactions and business of the Bank are carried out under applicable laws that have significant impact on the Bank. Relevant employees and operation units will update the Bank's rules on a timely basis upon changes in laws and policies.

XXXIV. Relationship with Significant Individuals

The Bank places utmost emphasis on the enterprise cultural construction, employee management and training and endeavors to build stable and harmonious employment relations. The Bank always treasures employees as one of its most important and valuable assets and cherishes employees' contribution and support. The Bank endeavors to create a harmonious and comfortable working environment, provide sound welfare and compensation system and reasonable career promotion channel for its employees. By means of appropriate trainings and opportunity offering, the Bank helps employees in career development and promotion.

The Bank actively provides deposit customers, loan customers and interbank fund customers with diversified financial services and enhances product and service innovation in order to improve the level of customer satisfaction and win customers' understanding, trust and support, thus maintaining sound relationship with customers. For loan customers, especially those related customers, the Bank insists on the market principle and will not provide credit support to them on a priority basis.

XXXV. Debts Securities

Issuance of Tier 2 Capital Bonds

At the end of the Reporting Period, the information of our issued debt securities are as follows:

Upon the approval of CBRC and PBOC, the Bank issued tier-two capital bonds with written off provisions on 24 January 2014. The total issue amount was RMB1.5 billion. The maturity was 10 years with a fixed coupon rate of 7.00% per annum. The bonds shall be redeemed partially or wholly discretionary by the Bank at the nominal amount at the end of five years upon the approval of relevant regulatory authorities.

Upon the approval of CBRC and PBOC, the Bank issued tier-two capital bonds with written off provisions on 26 December 2016. The total issue amount was RMB2.5 billion. The maturity was 10 years with a fixed coupon rate of 4.30% per annum. The bonds shall be redeemed partially or wholly discretionary by the Bank at the nominal amount at the end of five years upon the approval of relevant regulatory authorities.

Issuance of Interbank Deposit Certificates

As at the end of the Reporting Period, 238 outstanding and not yet expired interbank deposit certificates were issued by the Bank at a total cost of RMB85.569 billion.

Issuance of Offshore Preference Shares

In order to enhance the overall competitiveness and risk resistance capacity and improve the capital adequacy ratio and core capital adequacy ratio of the Bank, the Bank, on 27 October 2017, issued 74,800,000 non-accumulative Offshore Preference Shares with the par value of RMB100 each. All the proceeds, after deducting the related fees and expenses, were used to replenish other tier 1 capital of the Bank. As at 31 December 2017, the Bank's capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 11.67%, 10.24% and 8.44%, respectively.

XXXVI. Equity-linked Agreement

During the Reporting Period, except for the Offshore Preference Shares issued by the Bank on 27 October 2017, the Bank did not enter into or have any equity-linked agreement subsisting.

With the approval of regulatory authorities at home and abroad, during the Reporting Period, the Bank issued Offshore Preference Shares of US$1.496 billion to supplement other Tier 1 capital of the Bank. In accordance with the provisions of the "Administrative Measures for the Capital Management of Commercial Banks (Trial)" and the "Administrative Measures for Pilot Banks of Preferred Shares", the Bank may formulate terms governing the mandatory conversion of the preference shares into ordinary shares, namely, upon the occurrence of certain trigger events, the Bank shall convert the preference shares into ordinary shares in accordance with the provisions of the contract. The triggering event includes when the core tier 1 capital adequacy ratio falls to 5.125% (or below), and the China Banking Regulatory Commission determines that if it does not convert or write down, or if the relevant department determines that contribution were not provided by the public sector or equivalent support to be provided, the Bank will not survive. In accordance with the relevant regulations, the Bank set up the triggering event clauses for the mandatory conversion of preference shares into ordinary H shares for this offshore preference shares. Assumuing such trigger events occurred, the Bank is required to convert all Offshore Preference Shares into ordinary H shares at the initial conversion price, the number of Offshore Preference Shares to be converted into ordinary H shares would not exceed 1,278,084,312 ordinary H shares. As of to-date, there is no trigger event occurred that the Offshore Preference Shares is required to be mandatorily converted into ordinary H shares.

XXXVII. Subsequent Events

Please refer to note 56 to the financial statement included in this annual report for details of the subsequent events.

Chapter 11 Supervisors' Report

I. Report on Major Work

Convening of the Meetings: During the Reporting Period, the Board convened twelve Board of Supervisors meetings, at which 78 resolutions were reviewed and considered, including the work report of the Board of Supervisors, report on the mutual evaluation of external supervisors, internal audit work report, financial budget and final accounts report, profit distribution plan as well as the appraisal report on the performance of Directors and Supervisors; 10 meetings of the supervising committee and the nomination committee under the Board of Supervisors were called in total to consider 40 resolutions, including diligent duty performance, financial management, profit distribution, risk management, internal control and other business matters. In addition, Supervisors also attended the Shareholders' general meetings and the meetings of the Board of Directors, received the resolutions of the Shareholders' general meetings and supervised the matters to be considered and approved at the Board of Directors meetings and the relevant procedures.

Supervision on Performance of Duties: During the Reporting Period, the Board of Supervisors prudently performed its duties in accordance with the Company Law and the Articles of Association. In the principle of maintaining the interests of the Bank and its Shareholders, the Board of Supervisors diligently attended all previous Shareholders' general meetings and observed the meetings of the Board and the senior management to further strengthen the comprehensive supervision on the performance of Directors and the senior management. The Board of Supervisors supervised the decision-making process, operation and management, internal control, risk management and other matters of the Bank by means of retrieval of information, department interviews and communication with the external auditors, which led the Board of Supervisors to play its functional role effectively.

Daily Supervision: In order to fully playing its functional role, the Board of Supervisors enhanced supervision efficiency and performed supervision efficiencies and functions by making full use of meetings, audit reports and comprehensive analysis. Firstly, the Board of Supervisors participated in the Board of Directors, the party committee, the president's office meeting, and the bank-wide work conference to understand and supervise major management and management decisions, and ensured timely and effective communication of major issues and key work information in the bank. Secondly, the Board of Supervisors leveraged on the joint conference system with the offices of the Board of Directors, the Board of Supervisors, and the president to effectively conduct information transmission, which provided objective and independent recommendations, tracked and urge the implementation of relevant decisions, and regularly communicated the progress of key work to the leadership of the Board of Directors and senior management. Thirdly, the Board of Supervisors focused on collecting, collating and analyzing information on operations management, supervision and inspection, special reports, etc., which captured the dynamics of the Bank's business development, and brought relevant issues to the Board of Directors and senior management. This ensured the supervision of the Board of Supervisors was performed in details.

Self-reinforcement of the Board of Supervisors: According to the duties of the Board of Supervisors and the requirements for performance of duties after the listing, the Board of Supervisors participated in the special trainings on corporate governance in all respects given by intermediary institutions. Through systematic and standardized learning, there have been significant improvements in the standardization of company operations, management quality, and business philosophy. The breadth and depth of professional knowledge were expanded, which further strengthened our own professional qualities and laid a solid foundation for the establishment of good corporate governance.

Change in the Board of Supervisors: The general election plan was formulated according to the requirements of laws and regulations. The election procedures for the shareholder Supervisors and external Supervisors were performed. The supervision of the workers' congress were conducted to elect the new session of employee representative Supervisors. On 29 December 2017, upon the consideration and approval in the Shareholders' meeting, the fifth session of the Board of Supervisors was established. Immediately after the first meeting of the fifth session of the Board of Supervisors, which was held immediately after the Shareholders' general meeting, the chairman and vice chairman of the Board of Supervisors were elected. At the same time, according to the professional expertise and business experience of the Supervisors, the composition of the personnel of the special committee was determined and the work on the change of the Board of Supervisors was smoothly completed.

II. Independent Opinions on Relevant Matters

(I) Performance of Duties by the Board of Directors and the Senior Management

During the Reporting Period, the Board of Directors and the senior management conscientiously performed their duties according to the Guidelines on Corporate Governance of Commercial Banks and the Articles of Association. The Board of Directors is committed to continuously improving the internal governance system of the Bank. Through effectively leveraging on the role of strategic management and scientific decision-making, resolutions of Shareholders' meetings were conscientiously implemented and duties were earnestly performed. The senior management strictly implemented the resolutions and related requirements of the Board of Directors, which carefully formulated and implementd various measures, and reported to the Board of Directors and the Board of Supervisors on the operation and management in a timely manner. Such efforts ensured all tasks of the Bank were fully completed. No member of the board of directors or senior management was found to have violated laws, regulations, the articles of association of the Bank and deliberately undermined the interests of the Bank and shareholders when performing their duties.

(II) Operations in Compliance with Laws and Regulations

During the Reporting Period, the Bank carried out business activities according to law. The business decision-making process complied with laws, regulations and the relevant provisions of articles of association. During the course of business operations and management, the Directors and senior management officers were cautious, conscientious, diligent, and dutiful. No violations of laws, regulations, articles of association or acts that may infringe the interests of the company and shareholders were found.

(III) True Status of Financial Reporting

The 2017 annual financial report prepared by the Bank in accordance with International Financial Reporting Standards has been audited by KPMG and issued a standard unqualified audit report, which truly and fairly reflected the financial position of the Bank as of 31 December 2017 and the operating results and cash flow for the year of 2017.

(IV) Use of Proceeds

On 27 October 2017, the Bank issued non-accumulative perpetual Offshore Preference Shares of US$1.496 billion. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 30 October 2017. The par value of the Offshore Preference Shares was RMB100 each with an issue price of US$20 per share. The issued shares amounted to 74,800,000 shares in total, all of which were paid-up and issued in US dollars. After deducting related fees and expenses, they were all used to replenish the other tier 1 capital of the Bank.

(V) Connected Transactions

During the Reporting Period, the pricing of the Bank's connected transactions were fair and reasonable, not detrimental to the interests of Shareholders or the benefits of the Bank.

(VI) Internal Control

During the Reporting Period, the Bank continued to strengthen and improve its internal control. The comprehensiveness and effectiveness of the Bank's internal control were continuously improved. The Board of Supervisors was not aware of any material defect in the Bank's internal control system or its implementation.

(VII) Implementation of the Resolutions of General Meetings

During the Reporting Period, the Board of Supervisors had no objection to all such reports and resolutions submitted by the Board of Directors to the general meeting for consideration and approval during 2017. The Board of Supervisors supervised the implementation of the resolutions of the general meetings and considered that the Board of Directors had prudently implemented the resolutions of the general meetings.

Chapter 12 Social Responsibility Report

The Bank has always taken "serving the community and benefiting the public" as its mission, insisting on serving the local economy, serving small and micro enterprises, and serving the market positioning of urban and rural residents. Under the operating guidelines of "Switching mode, Adjusting structure, Controlling risk and Stabilizing development", the Bank comprehensively enhanced its value creation, service quality, and general support capabilities, which accurately and pragmatically created a financial poverty alleviation model with its own characteristics. In the course of sustainable development, the Bank took the initiative to take courageous responsibility, which actively served the society, contributed to society, and gave back to society.

Responsibilities towards the State

The Bank focused on the deployment of national development strategies and focused on promoting supply-side structural reforms. We promoted the transformation and upgrading of traditional industries, supported the development of strategic emerging industries, and revitalized the old industrial base in Northeast China. The Bank vigorously promoted green credit, actively supported energy-saving emission reduction, technological innovation, and technological innovation. Credit products were launched to support agriculture and farming, and support the supply side reform in the agricultural industry. More efforts were dedicated to serve the physical economy, actively support the development of small and micro enterprises and agriculture, and effectively implement inclusive finance.

Responsibilities towards the Shareholders

The Bank attaches great importance to protecting Shareholders' interests, and creates long-term value for Shareholders by improving the corporate governance structure and risk management system continuously, regulating the internal control management system, strictly guarding the bottom line of risk and focusing on financial security; actively facilitating the establishment of the information disclosure system, continuing to strengthen communication and exchange with investors, dedicating efforts to maintain investor relations, enhancing economic efficacy steadily, creating long-term value for shareholders and gaining recognition from the market and the community.

Responsibilities towards the Customers

The Bank relies on the diversified financial industry platform to provide high quality, efficient, integrated and comprehensive financial services to customers through innovations in products and services. Taking the characteristic financial service scenario as the starting point, we actively embraced financial technology and promote product and service innovation. By accelerating the transformation and upgrading of service outlets, as well as widening customer service channels, convenience services were improved. The Bank strengthened the protection of consumer rights, actively safeguarded the interest of customers and protected the security of customers' information.

Responsibilities towards the Employees

The Bank always adheres to the theory that business will thrive on talents, and improves the management of human resources continuously, safeguards and protects the legitimate interests of employees. The Bank strengthens the building of talents team, promotes talents cultivation and development. The Bank cares for the healthy growth of staff, provided employees with multi career paths. The Bank holds various cultural and sports activities, enriches the lifestyle of staff after work, endeavors to provide a safe and steady working environment for staff and creates room for good development, and creates a harmonious bank that grows together with employees.

Responsibilities towards the Environment

The Bank always adheres to the concept of environmental protection. Through improving the green credit policy and dedicating efforts to develop low-carbon finance, we carried out various environmental protection charity activities and actively implemented relevant national policy requirements for energy conservation and environmental protection. By enhancing energy utilization rate, reducing consumption of energy and resources, daily energy conservation and environmental protection were facilitated. The Bank fully implemented green office, integrated the green finance concept into financial services and operation and management. The Bank raised environmental awareness and achieved its sustainable development.

Responsibilities towards the Community

The Bank focused on the linkages between grass-roots branches and grass-roots party organizations and actively adopted the "Dual-base Linkage" model to serve urban and rural residents, popularize financial knowledge and fulfill social responsibilities. Through policy support, industrial support, and accurate and targeted poverty alleviation, "three-pronged approach" had accurately and pragmatically created a financial poverty alleviation model with its own characteristics. Various forms of assistance and help out activities and various types of voluntary service activities were carried out extensively to strengthen employees' awareness of society, responsibility, and dedication. A good social image of the Bank was established, which sincerely gave back to society, spread the positive energy of society, and achieved the coordinated development of the Bank and the society.

In 2018, the Bank will actively fulfill its social responsibilities through continuous service upgrades. The comprehensive competitiveness of the Bank will be enhanced continuously. Upon the dedicated efforts to cultivate a good corporate culture in the Bank and actively contributing to the community, the Bank will maximize economic, social and environmental values integrately, and remarkably perform its corporate social responsibilities.

Chapter 13 Internal Control And Internal Audit

I. Internal Control System and Control Activities

(I) Internal Control Organization System

The Bank has established an independent internal control organization structure. Pursuant to the relevant laws and regulations of PRC and the "Articles of Association of Bank of Jinzhou Co., Ltd.", a corporate governance structure and the rules of procedures have been established to delineate the duties and permitted authorities in the areas of decision-making, implementation and supervision, and a more scientific and effective division of duties and a balancing mechanism have been formed.

On the establishment and implementation of internal control, the Board of Directors shall be responsible for establishing sound and effective measures: it is responsible to ensure the establishment and implementation of a sufficient and effective internal control system; and is responsible for supervising the senior management to conduct supervision and evaluation on the effectiveness of internal control to ensure that continuous and effective improvements will be made to the system. The senior management is responsible for organizing and leading the daily operation of internal control in the Bank: it is responsible for executing the relevant decisions of the Board of Directors on internal control, conducting supervision and evaluation on the effectiveness of internal control; responsible for establishing and improving the internal organization structure to ensure the effective performance of the various functions of internal control. The Risk & Compliance Department, being a functional department for internal control management, will lead the coordination and planning, organization and implementation, and inspection and evaluation of the internal control system. All business departments are responsible for participating in the formulation of the business systems and operation flow processes relevant to their own duties; responsible for strict implementation of the requirements of the relevant systems; responsible for organizing and commencing supervisory inspections; responsible for reporting deficiencies existing in internal control in accordance with the scheduled timelines and reporting routes and making arrangements for the implementation of rectification measures. Branches and sub-branches are responsible to implement the overall requirements of internal control according to the instructions of their superior institution, as well as to carry out the daily work of establishment and implementation of internal control within its own organization.

On supervision and evaluation of internal control, the Board of Supervisors of the Bank will be responsible for overseeing the Board of Directors in the establishment and implementation of internal control, supervising the Directors and members of the senior management to perform their duties in accordance with the laws and rectifying any acts which are harmful to the interest of the Bank. The Audit Committee under the Board of Directors is responsible for supervising the effective implementation of internal control and the evaluation of internal control, and coordinating internal control audits and other related matters. The Internal Audit Department, the functional department for internal control management and the business departments are responsible for performing supervision and inspection on internal control, and establishing a supervision and inspection system covering branches of all levels, all products and all business flow processes according to division of work with coordination and cooperation. A rectification mechanism for problems of internal control will be established by the Bank to determine the departments responsible for rectification, to regulate the rectification work flow process, and to ensure that rectification measures are duly implemented. For any material deficiency discovered in the course of supervision and inspection, the Internal Audit Department is entitled to report directly to the Board of Directors and its Audit Committee and the Board of Supervisors; regular evaluation on the effectiveness of internal control will be carried out, and an internal control evaluation report will be issued according to the evaluation result.

(II) The Internal Control System

The perfection of a system will be the basis for the implementation and good effects of the system. The Bank attaches high importance to system establishment, a uniform amendment to the codification of the overall system on bank-wide basis will be carried out every year led by the Risk & Compliance Department of the Headquarters. The Headquarters has established a mail box for submitting system proposals by anyone in the Bank and collecting proposals for all line systems. The Risk & Compliance of the Headquarters is responsible for collecting proposals and communicating with the relevant departments, and performs follow-up work on the proposed system improvement measures to provide timely feedback to the proposing entity, forming a smooth communication mechanism between the Headquarters and the branches on system establishment. On the other hand, problems discovered in the auditing process by the Internal Audit Department of the Headquarters, such as system deficiencies, defects or obsoleteness, will be reflected in the audit report, and rectifications will be implemented under the supervision of the Risk & Compliance Department of the Headquarters. Through continuous improvements and experience accumulated over the years, the Bank has formed a relatively comprehensive and dynamic system management mechanism to ensure the maximum integrity of various systems and operation flow processes through a range of proven effective management measures and methods. In 2017, the Bank further improved our system by initiating the "Regulating both business and management" inspection work, which improved standard of work and enhanced awareness of compliance, and in turn established a unified standard and regulation for our works from now on.The compilation of the new edition of the system codification was headed by the risk & compliance department in the headquarters, which carried out typesetting and proofreading on all systems for all the departments of the head office, engraved 61 copies of the CD, printed more than 7,000 copies of the printing system, and sent them to various departments and branches of the head office to fulfill the needs of the inhouse knowledge system of staff.

(III) The Establishment of Internal Control

During the Reporting Period, the Bank continued to follow closely the guidance of "changing method, adjusting structure, and controlling risk management", and adhered to the principles of "priority for internal control" and "prudent operation", amendments and improvements were made to the overall system of the Bank continuously according to regulatory requirements, operation and management needs, risk management needs and the requirements under the Measures for the Management of the System of Rules and Regulations of the Bank of Jinzhou (《錦州銀行規章制度管理辦法》). The amended system covers all business lines, all operation positions and each employee, and the improved rules and regulations are announced timely on the intranet, and published in booklets for distribution to all branches and sub-branches to ensure the appropriate execution of the rules and regulations by employees. The Bank has established a training system with multiple channels for three levels, namely headquarters, branches and sub-branches, as well as a online platform. All employees may participate in the learning programs in a systematic manner. Publicity through newsletters and journals of the Bank and OA systems has been generated to promote sufficient awareness among employees on the importance of internal control and their participation in control activities. Our rectification tracking mechanism linked to the relevant departments has been operating effectively to tackle various types of problemsdiscovered in inspections, such as the President's Office is responsible for supervision and control of the operating effect ofrectification tracking and the penalty mechanism, the Internal Audit Department is responsible for the initiation of rectification tracking and initial determination of the responsible person for non-compliance acts, the Risk & Compliance Department is responsible for organizing and coordinating rectification tracking, the Human Resources Department is responsible for the execution of penalties and compliance performance appraisal, and the departments in charge of all business lines are responsible for confirming the rectification for problems discovered in internal auditing, realizing the sharing of information among departments at the Headquarters and timely acknowledge the existing condition of business operations, deficiencies in the system and inadequacy in implementation and other issues of the Bank. For non-compliance acts, the Bank will impose strict liability according to the Measures of Punishment on Financial Non-compliance Acts by Employees of the Bank of Jinzhou (Trial) (《錦州銀行員工金融違規行為處罰辦法(試行)》) and the Detailed Rules of Compliance Appraisal of the Bank of Jinzhou (《錦州銀行合規考核細則》), punishment will be imposed without preferential treatment. During the Reporting Period, compliance appraisal will continue to be regarded as an important integral part of the performance appraisal on branches, leading to the emphasis on compliance and risk management within the organization. Risk prevention and legal compliance will be placed in the top priority position in the course of development so as to eliminate imprudent operating behavior encouraged by or arising from improper performance appraisal policy at its source.

(IV) Supervision and Appraisal of Internal Control

During the Reporting Period, the Internal Audit Department of the Bank has conducted an independent review on the soundness and effectiveness of the internal control system according to the requirements of the Basic Norms of Corporate Internal Control (《企業內部控制基本規範》), Trial Measures for Internal Control Appraisal of Commercial Banks (《商業銀行內部控制評價試行辦法》) and Provisional Measures for Internal Control Appraisal of the Bank of Jinzhou(《錦州銀行內部控制評價辦法》) on the basis of self-evaluation in all business departments, branches and sub-branches,no material deficiency has been discovered in the establishment and implementation of internal control in the Bank, and the internal control system of the Bank is regarded as complete, reasonable and effective. Pursuant to the Measures for Inspection and Punishment for the Implementation of the System of Rules and Regulations of the Bank of Jinzhou (《錦州銀行制度執行情況檢查和處罰辦法》), the Bank has implemented a regular inspection mechanism on the effective operation and implementation of the system at the levels of Headquarters, branches and sub-branches, monthly self-inspections have been conducted by sub-branches, quarterly inspections have been conducted on business lines of branches, and half-yearly inspections have been conducted on business lines at the Headquarters, together with a risk-oriented internal audit performed on annual basis and inspections conducted by the compliance department, thus effective implementation of the regulatory requirements and the various rules and regulations of the Bank has been ensured, problems and potential hazards existing in the respective organs have been timely discovered, investigations are conducted to find out the causes and practicable measures are adopted, followed by rectification tracking. Through self-inspection and rectification, the compliance capability and internal control standards of the Bank have been enhanced comprehensively.

(V) Building an Internal Control Culture

Through the promotions of a series of campaigns, such as the "Year of Risk Management", the "Year of Compliance Establishment", "Year of System Implementation" and the "Regulating both business and management", the compliance awareness throughout the Bank has been enhanced over the years. The concepts of compliance have been repeatedly emphasized, such as "Compliance is the cornerstone of development", "Compliance is the duty of everyone", "Compliance creates value", "Compliance starts from senior management" and "Be proactive in compliance", such concepts are deeply rooted in the hearts of everyone, and the atmosphere of compliance of "Glorious for compliance and Shameless on non-compliance"has been formed. The compliance and risk management mechanism of the Bank has been operating in an orderly manner. All employees of the Bank, under the influence of corporate culture, have established good working practice for a long term, they respect their jobs and industry, they are willing to contribute, work diligently and live a simple life, a culture of compliance in "learning regulations, knowing regulations, conforming to regulations and applying regulations" has been formed gradually, which has played a key and positive role in maintaining a zero record of non-compliance case by the Bank persistently over many years.

II. Internal Audit

The Bank has established an independent and sound internal audit management structure. The Audit Committee is formed under the Board of Directors to conduct audit and supervision on the progress of internal audit work. The Internal Audit Department is accountable to the Board of Directors and the Audit Committee, and has laid the foundation for carrying out independent and objective internal audit work. The Internal Audit Department of the Bank is authorized by the Board of Directors to conduct internal audits independently, without interference from other departments and individuals, and it will not participate in the operating activities within the scope of duties of other departments. The Bank has established a comprehensive internal audit system by adapting to its own current development conditions and adhering to risk-oriented audit vision. The concept of "circular auditing" has been implemented consistently and management effectiveness considerations were explored. Audit projects are conducted strictly according to the audit manual, the scope of audit covers all business lines and branches and sub-branches of the Bank, and the audits are carried out according to the auditing process and reporting system. Opinions and proposals will be provided to tackle deficiencies in internal control discovered in the course of auditing, tracking on the implementation of rectifications will continue to facilitate the transformation of audit result into the realization of value-added auditing.

During the Reporting Period, the Internal Audit Department of the Bank continued to further establish the internal audit management system, with enhancing risk management and elevating the standard of internal control as major working objectives, regulatory developments and actual developments of the Bank as the guiding directions, the scope and meticulousness of audit had been increasing. Combined with the actual development of the department in continuously standardizing the basic work flow of auditing and optimizing the management model audit project, a strong guarantee for the development of the audit work was provided. While completing regular audit projects, the Internal Audit Department of the Bank also emphasized on the implementation of special audit projects by conducting regular audit projects. Auditing means were innovated and audit methods were optimized. We made full use of the auditing system platform to increase off-site analysis, and provided strong data support for the development of audit work. On the basis of completion of the annual audit task in a quality and efficiency manner, the internal audit department of the Bank carried out four large-scale special self-examinations within the scope of the Bank in accordance with regulatory requirements and the business situation of the Bank. The internal audit work of the Bank was thus highly consistent with the direction of supervision, which further developed in-depth interaction between the supervisors and the auditors, captured the vision and guidance in supervision, and strived to standardize business practices and effectively prevented against financial risks.

Chapter 14 Important Events

I. Proposed A Share Issue

Upon consideration and approval in the 2015 Annual General Meeting, the 2015 Domestic Shareholders'Class Meeting and the 2015 H Shareholders' Class Meeting of the Bank held on 29 June 2016, the Bank proposed to issue not more than 1,927,000,000 A Shares in total at a nominal value of RMB1.00 each, representing 22.13% of the total number of shares of the Bank as enlarged upon the completion of the A Share Offering (without taking into account the offshore preference shares and their conversions). The actual number of shares to be issued shall be determined by the Board as authorized by the shareholders' general meeting of the Bank after consultation with the regulatory authorities and depending upon the market situation at the time of the issue. At the 2016 Annual General Meeting, the 2016 Domestic Shareholders'Class Meeting and the 2016 H Shareholders' Class Meeting of the Bank held on 25 May 2017, the resolution on the extension of the validity period of the A Share Offering and the relevant authorisation matters were considered and approved. The Bank shall disclose further details and progresses on the A Share Offering in due courses.

II. Issuance of Debt Securities

(I) Debt Securities Issued

Upon the approval of CBRC and PBOC, the Bank issued tier-two capital bonds with written off provisions on 24 January 2014. The total issue amount was RMB1.5 billion. The maturity was 10 years with a fixed coupon rate of 7.00% per annum. The bonds shall be redeemed partially or wholly discretionary by the Bank at the nominal amount at the end of five years upon the approval of relevant regulatory authorities.

Upon the approval of CBRC and PBOC, the Bank issued tier-two capital bonds with written off provisions on 26 December 2016. The total issue amount was RMB2.5 billion. The maturity was 10 years with a fixed coupon rate of 4.30% per annum. The bonds shall be redeemed partially or wholly discretionary by the Bank at the nominal amount at the end of five years upon the approval of relevant regulatory authorities.

(II) Interbank Certificates of Deposit Issued

As at the end of the Reporting Period, the Bank issued 238 interbank certificates of deposit (issued and are not matured yet) in total with an aggregate amount of RMB85.569 billion.

(III) Bonds Proposed to be Issued

The Board has resolved, and the Shareholders have approved at the 2015 Annual General Meeting of the Bank held on 29 June 2016 that, subject to the approvals from regulatory authorities having been obtained, the Bank will issue the following debt securities:

Financial bonds for small and micro enterprises in an aggregate principal amount of not more than RMB10 billion (inclusive) will be issued to members of the inter-bank bond market in China, for a term of maturity of not more than five years (inclusive) at a fixed interest rate to be determined by the Bank and the lead underwriter according to the market environment at the time of issuance. The proceeds from the issuance of such bonds will be used for loans to small and micro enterprises.

The Board has resolved, and the Shareholders have approved at the 2016 annual general meeting of the Bank held on 25 May 2017 that, subject to obtaining necessary approvals from regulatory authorities, the Bank will issue the following debt securities:

The green financial bonds to be issued at one or more times with the total principal amounting to not more than RMB2 billion to members of the inter-bank bond market for a term of 3 years or 5 years. Interest rate is recommended to be determined as the fixed rate based on the existing bookkeeping or the result of open auction. The Proceeds shall be used for the green industry projects required by Directory of Projects Supported by Green Bonds issued by the Green Finance Professional Committee of the Financial Society in China.

III. Issuance of Offshore Preference Shares

In order to enhance the overall competitiveness and risk resistance capacity and improve the capital adequacy ratio and core capital adequacy ratio of the Bank, the Bank, on 27 October 2017, issued 74,800,000 non-accumulative Offshore Preference Shares with the par value of RMB100 each. All the proceeds, after deducting the related fees and expenses, were used to replenish other tier 1 capital of the Bank. As at 31 December 2017, the Bank's capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 11.67%, 10.24% and 8.44%, respectively.

IV. Related-party Transactions

No material related-party transaction that has adverse impact on the Bank's business results and financial position occurred during the Reporting Period.

V. Material Litigation and Arbitration

As at the end of the Reporting Period, the pending material litigations to which the Bank was a defendant involved RMB136,588 thousand which in the opinion of the Bank would have no material impact on the Bank's business operations. During the Reporting Period, the Bank was not involved in any litigation or arbitration that would materially affect its business operations.

VI. Penalties Imposed on the Bank and its Directors, Supervisors and Senior Management Members

During the Reporting Period, the Bank, all Directors, Supervisors and senior management members had no record of being subject to inspections, administrative penalties and circulating criticisms by China Securities Regulatory Commission or public censures by the Hong Kong Stock Exchange, or penalties by relevant regulatory bodies that caused significant impact on the Bank's operation.

VII. Material Contracts and Their Performance

During the Reporting Period, the Bank had no material contracts to be performed.

VIII. Material Acquisition and Disposal of Subsidiaries, Associates, Assets and Business/Enterprises Merger

During the Reporting Period, the Bank had no material acquisition and disposal of material subsidiaries, associates, assets and merger of business/enterprises.

IX. Engagement of External Auditors

KPMG Huazhen LLP was engaged by the Bank as the auditors for the PRC GAAP financial statements of the Bank for 2017. KPMG was engaged by the Bank as the auditors for the IAS financial statements of the Bank for 2017.

X. Appropriation of Profits During the Reporting Period

Upon consideration and approval in the annual general meeting of the Bank held on 25 May 2017, the profit distribution plan of the Bank for the year ended 31 December 2016 was as follows:

– Appropriation of statutory surplus reserve amounted to RMB809.08 million, based on 10% of the profit after tax.

– Appropriation of general reserve amounted to RMB2,423.83 million.

– Declaration of cash dividend of RMB0.15 (including tax) per share to all Shareholders, amounted to RMB1,017.24 million in total.

XI. Publication of Annual Report

This annual report is prepared in both English and Chinese versions, in the event of any discrepancies in interpretation between the English version and Chinese version, the Chinese version shall prevail.

Chapter 15 Independent Auditor's Report

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

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

Opinion

We have audited the consolidated financial statements of Bank of Jinzhou Co., Ltd. ("the Bank") and its subsidiaries ("the Group") set out on pages 149 to 268, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements 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.

Impairment of loans and receivables

Refer to note 20 and note 23 to the consolidated financial statements and the accounting policies on pages 161 - 164.

The Key Audit Matter	How the matter was addressed in our audit
Loans and receivables include both loans and advances to customers and debt securities classified as receivables. Impairment of loans and receivables is a subjective area due to the level of judgement applied by management in determining provisions. From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining provisions for impairment losses were those where impairment was derived from collective assessment models, where the loans and receivables were unsecured or where the loans and receivables were subject to potential collateral shortfalls.	Our audit procedures to assess the impairment of loans and receivables included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of loans and receivables, the credit grading process and the measurement of individual provisions for impairment losses. For the key underlying systems used for the processing of transactions in the above process, we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management; • comparing the total balance of the loan grading report, which contains loan grading and overdue information of loans used by management to assess the allowances for impairment, with the general ledger and comparing individual loan information, on a sample basis, with the underlying loan agreements and other related documentation to assess the information in the loan grading report;

Key audit matters *(continued)*

Impairment of loans and receivables *(continued)*

Refer to note 20 and note 23 to the consolidated financial statements and the accounting policies on pages 161 - 164.

The Key Audit Matter	How the matter was addressed in our audit
The determination of the collective provisions for impairment losses is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The Group's collective provisions for impairment losses are derived from estimates including the Group's historical losses for loans and receivables, the loss emergence period (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors. Individual provisions for impairment losses are estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors. Enforceability, timing and means of realisation of collateral has a significant impact on collateral valuation and, therefore, the amount of provisions for impairment losses as at the reporting date.	• evaluating the validity of the models used and assumptions adopted in the Group's calculation of the collective provisions for impairment losses by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Group's other internal records and our prior year records. As part of these procedures, we challenged the Group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We compared the economic factors used in the model to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the accounts to impaired loans and receivables. Having considered the above, we performed re-calculations to assess the amount of collective provisions for impairment losses;

Key audit matters *(continued)*

Impairment of loans and receivables *(continued)*

Refer to note 20 and note 23 to the consolidated financial statements and the accounting policies on pages 161 - 164

The Key Audit Matter	How the matter was addressed in our audit
We identified impairment of loans and receivables as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.	• assessing the individual provisions for impairment losses by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries which are more vulnerable to the current economic situation and with reference to borrowers with adverse press coverage. We also selected samples based on other risk criteria from the loan grading report. We selected further samples for credit review from loans classified as "Special Mention", "Substandard" or "Doubtful"; and • performing credit review procedures for the sample of loans and receivables selected as mentioned above, which included reviewing the customers' financial information, researching market information about the customers' businesses and evaluating management's assessment of the value of any collateral held, assessing the forecast cash flows for impaired loans and receivables, challenging the viability of the Group's recovery plans, evaluating the timing and means of realisation of collateral and considering other sources of repayment asserted by management.

Key audit matters *(continued)*

Consolidation of structured entities

Refer to note 45 to the consolidated financial statements and the accounting policies on page 179.

The Key Audit Matter

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

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

How the matter was addressed in our audit

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

- making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard;

- selecting significant structured entities of each key product type and performing the following procedures for each entity selected:

  – inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;

Key audit matters *(continued)*

Consolidation of structured entities *(continued)*

Refer to note 45 to the consolidated financial statements and the accounting policies on page 179.

The Key Audit Matter

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

How the matter was addressed in our audit

  - reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity;
  - reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity;
  - assessing management's judgement over whether the structured entity should be consolidated or not; and

- considering the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

Key audit matters *(continued)*

Valuation of financial instruments

Refer to note 51 to the consolidated financial statements and the accounting policies on pages 165 and 178.

The Key Audit Matter

At 31 December 2017 the fair value of the Group's financial assets was RMB74,167 million of which RMB0 million, RMB43,904 million and RMB30,263 million was classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively.

At 31 December 2017 the fair value of the Group's financial liabilities was RMB23,163 million of which RMB0 million, RMB723 million and RMB22,440 million was classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively.

The valuation of the Group's financial instruments is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement. The Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involves significant management judgement.

We have identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.

How the matter was addressed in our audit

Our audit procedures to assess the fair value of financial instruments included the following:

- assessing the design, implementation and operating effectiveness of management's key internal controls over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments;
- evaluating the valuation models used by the Group to value certain level 2 and level 3 financial instruments and to perform, on a sample basis, independent valuations of level 2 and level 3 financial instruments and compare these valuations with the Group's valuations. This included comparing the Group's valuation models with our knowledge of current and emerging practice, testing inputs to the fair value calculations and establishing our own valuation models to perform revaluations; and
- assessing whether the financial statement disclosures appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

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

The directors of the Bank are responsible for the other information. The other information comprises all 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 issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Bank 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 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, 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.

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Pang Shing Chor, Eric.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 March 2018

Consolidated income statement

for the year ended 31 December 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended 31 December 2017	2016
Interest income		**39,943,533**	27,897,191
Interest expense		**(21,410,609)**	(12,448,982)
Net interest income	3	**18,532,924**	15,448,209
Fee and commission income		**832,833**	883,933
Fee and commission expense		**(96,159)**	(74,668)
Net fee and commission income	4	**736,674**	809,265
Net trading (losses)/gains	5	**(278,264)**	49,948
Dividend income		**640**	895
Net gains arising from investment securities	6	**30,796**	10,348
Net foreign exchange (losses)/gains		**(239,637)**	53,724
Other net operating income		**22,859**	41,460
Operating income		**18,805,992**	16,413,849
Operating expenses	7	**(3,308,138)**	(2,758,039)
Operating profit before impairment		**15,497,854**	13,655,810
Impairment losses on assets	10	**(3,444,523)**	(2,784,895)
Profit before tax		**12,053,331**	10,870,915
Income tax expense	11	**(2,963,273)**	(2,671,469)
Profit for the year		**9,090,058**	8,199,446
Attributable to:			
Equity shareholders of the Bank		**8,976,990**	8,129,590
Non-controlling interests		**113,068**	69,856
Profit for the year		**9,090,058**	8,199,446
Basic and diluted earnings per share (in RMB)	12	**1.32**	1.40

The notes on pages 156 to 268 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended 31 December 2017	2016
Profit for the year		**9,090,058**	8,199,446
Other comprehensive income for the year:			
Items that may be reclassified subsequently to profit or loss:			
– Available-for-sale financial assets:			
– Change in fair value recognized in the Capital Reserve		**(840,826)**	(678,497)
– Reclassified to the profit or loss upon disposal		**(39,022)**	(54,323)
– Related income tax effect	27(b)	**219,962**	183,205
Items that will not be reclassified to profit or loss:			
– Remeasurement of defined benefit obligation	34(b)	**(2,100)**	(247)
Other comprehensive income, net of tax		**(661,986)**	(549,862)
Total comprehensive income for the year		**8,428,072**	7,649,584
Attributable to:			
Equity shareholders of the Bank		**8,315,004**	7,579,728
Non-controlling interests		**113,068**	69,856
Total comprehensive income for the year		**8,428,072**	7,649,584

The notes on pages 156 to 268 form part of these financial statements.

Consolidated statement of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2017	2016
Assets			
Cash and deposits with the central bank	13	**52,117,510**	43,666,527
Deposits with banks and other financial institutions	14	**9,617,694**	8,673,633
Placements with banks and other financial institutions	15	**2,500,000**	—
Financial assets at fair value through profit or loss	16	**23,526,808**	21,151,136
Positive fair value of derivatives	17	**1,409**	53,858
Financial assets held under resale agreements	18	**3,572,794**	—
Interests receivable	19	**4,228,920**	3,555,448
Loans and advances to customers	20	**209,084,947**	121,930,761
Available-for-sale financial assets	21	**50,697,199**	34,722,912
Held-to-maturity investments	22	**7,778,664**	10,436,027
Debt securities classified as receivables	23	**343,369,567**	281,680,541
Financial lease receivables	24	**6,840,341**	4,615,491
Property and equipment	26	**6,452,324**	6,142,076
Deferred tax assets	27	**2,379,845**	1,476,339
Other assets	28	**1,249,628**	954,773
Total assets		**723,417,650**	539,059,522
Liabilities and equity			
Liabilities			
Borrowing from the central bank		**307,848**	—
Deposits from banks and other financial institutions	30	**134,537,429**	131,028,453
Placements from banks and other financial institutions	31	**13,466,127**	3,866,521
Financial liabilities at fair value through profit or loss		**22,439,776**	20,986,772
Negative fair value of derivatives	17	**722,982**	7,938
Financial assets sold under repurchase agreements	32	**39,064,430**	35,164,192
Deposits from customers	33	**342,264,228**	262,969,211
Accrued staff costs	34	**259,517**	253,268
Taxes payable	35	**1,148,908**	770,886
Interests payable	36	**12,462,400**	7,241,416
Debt securities issued	37	**89,564,751**	30,223,286
Other liabilities	38	**7,014,526**	3,653,267
Total liabilities		**663,252,922**	496,165,210

The notes on pages 156 to 268 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2017	2016
Equity			
Share capital	40	**6,781,616**	6,781,616
Other equity instruments			
Including: Preference Shares	41	**9,897,363**	—
Capital reserve	42	**13,578,809**	14,240,795
Surplus reserve	43	**2,994,679**	2,101,109
General reserve	43	**9,818,070**	7,225,282
Retained earnings	44	**13,160,018**	8,686,628
Total equity attributable to equity shareholders of the Bank		**56,230,555**	39,035,430
Non-controlling interests		**3,934,173**	3,858,882
Total equity		**60,164,728**	42,894,312
Total liabilities and equity		**723,417,650**	539,059,522

Approved and authorised for issue by the board of directors on 29 March 2018.

Zhang Wei	**Wang Xiaoyu**	**Company chop**
Chairman	*Executive Director/ Head of Finance*	

The notes on pages 156 to 268 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank								
	Note	Share Capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2017		**6,781,616**	**—**	**14,240,795**	**2,101,109**	**7,225,282**	**8,686,628**	**39,035,430**	**3,858,882**	**42,894,312**
Changes in equity for the year:										
Total comprehensive income		**—**	**—**	**(661,986)**	**—**	**—**	**8,976,990**	**8,315,004**	**113,068**	**8,428,072**
Capital injection by other equity holders	41	**—**	**9,897,363**	**—**	**—**	**—**	**—**	**9,897,363**	**—**	**9,897,363**
Appropriation of profits	44									
– Appropriation to surplus reserve		**—**	**—**	**—**	**893,570**	**—**	**(893,570)**	**—**	**—**	**—**
– Appropriation to general reserve		**—**	**—**	**—**	**—**	**2,592,788**	**(2,592,788)**	**—**	**—**	**—**
– Appropriation to shareholders		**—**	**—**	**—**	**—**	**—**	**(1,017,242)**	**(1,017,242)**	**(37,777)**	**(1,055,019)**
Balance at 31 December 2017		**6,781,616**	**9,897,363**	**13,578,809**	**2,994,679**	**9,818,070**	**13,160,018**	**56,230,555**	**3,934,173**	**60,164,728**
Balance at 1 January 2016		5,781,616	—	9,152,898	1,292,031	4,801,449	4,570,467	25,598,461	672,853	26,271,314
Changes in equity for the year:										
Total comprehensive income		—	—	(549,862)	—	—	8,129,590	7,579,728	69,856	7,649,584
Changes in share capital										
– Capital injection by equity shareholders	40	1,000,000	—	5,637,759	—	—	—	6,637,759	—	6,637,759
– Capital injection by non-controlling interests		—	—	—	—	—	—	—	3,121,570	3,121,570
Appropriation of profits	44									
– Appropriation to surplus reserve		—	—	—	809,078	—	(809,078)	—	—	—
– Appropriation to general reserve		—	—	—	—	2,423,833	(2,423,833)	—	—	—
– Appropriation to shareholders		—	—	—	—	—	(780,518)	(780,518)	(5,397)	(785,915)
Balance at 31 December 2016		6,781,616	—	14,240,795	2,101,109	7,225,282	8,686,628	39,035,430	3,858,882	42,894,312

The notes on pages 156 to 268 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Years ended 31 December	
	2017	2016
Cash flows from operating activities		
Profit for the year	**9,090,058**	8,199,446
Adjustments for:		
Impairment losses on assets	**3,444,523**	2,784,895
Depreciation and amortization	**403,193**	381,258
Unwinding of discount	**(67,635)**	(35,907)
Dividend income	**(640)**	(895)
Unrealized foreign exchange losses/(gains)	**158,814**	(76,412)
Net losses/(gains) on derivative financial instruments	**98,352**	(31,415)
Net gains on disposal of investment securities	**(30,796)**	(10,348)
Net (gains)/losses on disposal of trading securities	**(2,578)**	5,450
Revaluation losses/(gains) on financial instruments at fair value through profit or loss	**182,490**	(23,983)
Interest expense on debts securities issued	**3,342,613**	185,795
Net gains on disposal of property and equipment	**—**	(15)
Income tax expense	**2,963,273**	2,671,469
	19,581,667	14,049,338
Changes in operating assets		
Net (increase)/decrease in deposits with the central bank, banks and other financial institutions	**(15,227,559)**	140,861
Net decrease in placements with banks and other financial institutions	**—**	649,360
Net increase in loans and advances to customers	**(88,709,589)**	(25,736,853)
Net increase in financial assets designated at fair value through profit or loss	**(1,416,690)**	(5,712,570)
Net increase in financial lease receivables	**(2,357,598)**	(4,662,645)
Net increase in other operating assets	**(991,126)**	(1,032,942)
	(108,702,562)	(36,354,789)
Changes in operating liabilities		
Net increase in borrowing from central bank	**307,848**	—
Net increase in deposits from banks and other financial institutions	**3,508,976**	14,677,275
Net increase in placements from banks and other financial institutions	**9,599,606**	10,713
Net increase in financial assets sold under repurchase agreements	**3,900,238**	14,920,092
Net increase in financial liabilities designated at fair value through profit or loss	**1,416,690**	5,712,570
Net increase in deposits from customers	**79,295,017**	92,790,489
Income tax paid	**(3,553,146)**	(3,054,975)
Net increase in other operating liabilities	**8,680,747**	3,927,030
	103,155,976	128,983,194
Net cash flows generated from operating activities	**14,035,081**	106,677,743

The notes on pages 156 to 268 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2017 *(continued)*

(Express in thousands of Renminbi, unless otherwise stated)

	Note	Years ended 31 December 2017	2016
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		**297,078,610**	608,239,100
Dividends received		**640**	895
Proceeds from disposal of property and equipment and other assets		—	50
Payments on acquisition of investments		**(374,922,174)**	(743,971,123)
Payments on acquisition of property and equipment, intangible assets and other assets		**(705,690)**	(1,020,040)
Net cash flows used in investing activities		**(78,548,614)**	(136,751,118)
Cash flows from financing activities			
Proceeds from capital contribution by equity shareholders		—	6,637,759
Proceeds from issue of other equity instruments		**9,897,363**	—
Capital injection by non-controlling interests		—	3,121,570
Proceeds from issue of debt securities		**159,475,633**	28,643,703
Repayment of debts securities issued		**(103,090,000)**	—
Interest paid on debts securities issued		**(358,962)**	(105,011)
Dividends paid		**(892,846)**	(826,967)
Net cash flows generated from financing activities		**65,031,188**	37,471,054
Effect of foreign exchange rate changes on cash and cash equivalents		**(277,376)**	29,031
Net increase in cash and cash equivalents	47(a)	**240,279**	7,426,710
Cash and cash equivalents as at 1 January		**12,229,671**	4,802,961
Cash and cash equivalents as at 31 December	47(b)	**12,469,950**	12,229,671
Interest received		**39,236,370**	26,876,062
Interest paid (excluding interest expense on debts securities issued)		**(12,874,831)**	(10,368,736)

The notes on pages 156 to 268 form part of these financial statements.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

Bank of Jinzhou co., Ltd. (the "Bank") was established on 22 January 1997 with approval of the People's Bank of China (the "PBOC") (YinFu 1997 No.29).

The Bank obtained its finance permit No. B0127H221070001 from the China Banking Regulatory commission (the "CBRC") of the People's Republic of China (the "PRC"). The Bank obtained its business license with unified social credit code No. 912107002426682145 from the State Administration for Industry and Commerce of the PRC. The legal representative is Zhang Wei and the address of the registered office is No. 68 Keji Road, Jinzhou City, Liaoning Province, the PRC.

In December 2015, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 0416). As at 31 December 2017 the share capital of the Bank is RMB 6,782 million.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and retail deposits, loans and advances, payment and settlement services, finance leasing as well as other banking services as approved by the CBRC. The Group operates in mainland China, which, for the purpose of this report, excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC ("Macau") and Taiwan. As at 31 December 2017, the Bank has 15 branches in Jinzhou, Beijing, Tianjin, Shenyang, Dalian, Harbin, Dandong, Fushun, Anshan, Chaoyang, Fuxin, Liaoyang, Hu Ludao, Benxi and Yingkou.

2 Significant accounting policies

(1) Statement of compliance and basis of preparation

The financial statements set out in this report have been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs") and related interpretations, issued by the International Accounting Standards Board (the "IASB"), as well as with the applicable disclosure provisions of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Unless stated otherwise, the financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the Group.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgments that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(26).

2 Significant accounting policies *(continued)*

(1) Statement of compliance and basis of preparation *(continued)*

The measurement basis used in the preparation of the financial statements is historical cost, with the exception of financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(6).

(2) Change in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 47(c) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative*, which require entities 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.

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

(3) Basis of consolidation

The financial statements comprises financial statements of the Bank and its subsidiaries. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealized profit arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests are presented separately in the consolidated statements of financial position within equity as well as in the consolidated statements of profit or loss and other comprehensive income within net profit and total comprehensive income. Where losses attributable to the non-controlling interests of a subsidiary exceed the non-controlling interests in the equity of the subsidiary, the excess, and any further losses attributable to the non-controlling interests, are allocated against the equity attributable to the Bank.

In the Bank's statements of financial position, investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(16)).

2 Significant accounting policies *(continued)*

(4) Translation of foreign currencies

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

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

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

(5) Cash and cash equivalents

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

(6) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

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

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

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

2 Significant accounting policies *(continued)*

(6) Financial instruments *(continued)*

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

Financial assets and financial liabilities are categorized as follows:

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

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

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

  — the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

  — the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;

  — the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

  — the separation of the embedded derivatives from the financial instrument is prohibited.

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

- Held-to-maturity investments

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

  (a) those that the Group, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; or

  (b) those that meet the definition of loans and receivables.

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

2 Significant accounting policies *(continued)*

(6) Financial instruments *(continued)*

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

- Loans and receivables

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

  (a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;

  (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

  (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

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

- Available-for-sale financial assets

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

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

- Other financial liabilities

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

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

2 Significant accounting policies *(continued)*

(6) Financial instruments *(continued)*

(ii) Impairment of financial assets

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

Objective evidence includes the following loss event:

— significant financial difficulty of the issuer or borrower;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

— disappearance of an active market for financial assets because of financial difficulties;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

- Loans and receivables

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

Individual assessment

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

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

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

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

2 Significant accounting policies *(continued)*

(6) Financial instruments *(continued)*

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

- Loans and receivables *(continued)*

Collective assessment

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

Homogeneous groups of loans not considered individually significant

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

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

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

The collective impairment loss is assessed after taking into account:

— historical loss experience in portfolios of similar credit risk characteristics;

— the emergence period between a loss occurring and that loss being identified; and

— the current economic and credit environments and the judgment on inherent loss based on management's historical experience.

2 Significant accounting policies *(continued)*

(6) Financial instruments *(continued)*

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

- Loans and receivables *(continued)*

Individually assessed loans and receivables with no objective evidence of impairment on an individual basis (continued)

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

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

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

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

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

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

2 Significant accounting policies *(continued)*

(6) Financial instruments *(continued)*

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

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

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

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

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

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

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

2 Significant accounting policies *(continued)*

(6) Financial instruments *(continued)*

(iii) Fair value measurement principles

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

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

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

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

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

2 Significant accounting policies *(continued)*

(6) Financial instruments *(continued)*

(iv) Derecognition of financial assets and financial liabilities

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

— the contractual rights to the cash flows from the financial asset expire; or

— the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

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

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

(v) Offsetting

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

(7) Financial assets held under resale and repurchase agreements

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

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

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

2 Significant accounting policies *(continued)*

(8) Preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy as accounting for the convertible bonds only with liability component.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Dividends payables are recognised as distribution of profits. When the preference shares are redeemed according to the contractual terms, the redemption price is charged to equity.

(9) Precious metals

Precious metals comprise gold. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

The Group records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. The precious metals deposited in the Group are measured at fair value both on initial recognition and in subsequent measurement.

(10) Investment in subsidiaries

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

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note 2(16)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

2 Significant accounting policies *(continued)*

(11) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(16)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	40 years	4%	2.4%

(12) Property and equipment and construction in progress

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

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(16)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(16)).

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

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

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

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

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

2 Significant accounting policies *(continued)*

(12) Property and equipment and construction in progress *(continued)*

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

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	40 years	4%	2.4%
Motor vehicles	5 years	5%	19.0%
Others	5 - 10 years	0% - 5%	9.5% - 20.0%

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

(13) Operating leases and finance leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

(i) Operating lease charges

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term. Contingent rental payments are expensed as incurred.

(ii) Assets leased out under finance leases

At the commencement of the lease term, the Group recognises the aggregate of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable. The difference between the aggregate of the minimum lease receipts, the initial direct costs, and the aggregate of their present value is recognised as unearned finance income.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the balance sheet date, finance lease receivables, net of unearned finance income, are presented as financial lease receivables in the statements of financial position.

2 Significant accounting policies *(continued)*

(14) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(16)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Computer software	10 years

(15) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The 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.

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

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

— property and equipment

— construction in progress

— intangible assets

— investment property measured using a cost model

— investment in subsidiaries

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

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

2 Significant accounting policies *(continued)*

(16) Provision for impairment losses on non-financial assets *(continued)*

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

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

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

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

(17) Employee benefits

Employee benefits are all forms of considerations given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognized as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss.

(i) Retirement benefits

Defined contribution plans - social pension schemes

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

2 Significant accounting policies *(continued)*

(17) Employee benefits *(continued)*

(i) Retirement benefits *(continued)*

Supplementary retirement benefits

The Group provides a supplementary retirement benefits to its eligible employee under the defined benefit plan for post-employment to periods of service and recognize the long-term benefit obligations under the defined benefit plan for long-term paid leave plan when the plan was approved, with the corresponding charge to the profit or loss. The calculation of defined benefit obligations is performed annually by a qualified actuary using the expected cumulative unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

(ii) Housing fund and other social insurances

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

2 Significant accounting policies *(continued)*

(18) Income tax

Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items that are recognized in other comprehensive income, in which case the relevant amounts are recognized in other comprehensive income.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the period, and any adjustment to tax payable in respect of previous periods.

At the end of each of the reporting period, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss).

At the end of each of the reporting period, the amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realized or the liability is settled in accordance with tax laws.

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

At the end of each of the reporting period, deferred tax assets and liabilities are offset if all the following conditions are met:

— the taxable entity has a legally enforceable right to net off current tax assets against current tax liabilities; and

— they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which either intend to settle the current tax liabilities and assets on a net basis, or to simultaneously realize the assets and settle the liabilities in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2 Significant accounting policies *(continued)*

(19) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee ("holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position as stated in Note 2(19) (ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(ii) Other provisions and contingent liabilities

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

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

(20) Fiduciary activities

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

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

2 Significant accounting policies *(continued)*

(21) Income recognition

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

(i) Interest income

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

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

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

(ii) Fee and commission income

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

(iii) Other income

Other income is recognized on an accrual basis.

(22) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognized on an accrual basis.

2 Significant accounting policies *(continued)*

(23) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each of the reporting period are not recognized as a liability at the end of each of the reporting period but disclosed separately in the notes to the financial statements.

(24) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Significant accounting policies *(continued)*

(25) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(26) Significant accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

(i) Impairment losses of loans and advances and debt securities classified as receivables

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances and debt securities classified as 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.

(ii) Impairment losses of available-for-sale financial assets and held-to-maturity investments

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale financial assets and held-to-maturity investments, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, change of technology as well as operating and financing cash flows. This requires a significant level of judgement of management, which would affect the amount of impairment losses.

2 Significant accounting policies *(continued)*

(26) Significant accounting estimates and judgements *(continued)*

(iii) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(iv) The classification of the held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Group has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(v) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(vi) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

2 Significant accounting policies *(continued)*

(26) Signficant accounting estimates and judgements *(continued)*

(vii) Depreciation and amortization

Investment properties, property and equipment and intangible assets are depreciated and amortized using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each of the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

(viii) Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 2(1) indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, the Group's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Group has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 45.

(ix) Defined benefit plan

The Group has established liabilities in connection with supplementary retirement benefits and other long-term benefits. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, mortality rates, demission rates and other factors. Management has made significant estimates when made these assumptions. The changes in assumptions may affect the Group's expenses related to its employee defined benefit obligations.

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Net interest income

	Years ended 31 December	
	2017	2016
Interest incomes arising from		
Deposits with the central bank	**729,694**	515,757
Deposits with banks and other financial institutions	**354,559**	178,037
Placements with banks and other financial institutions	**32,611**	10,100
Financial assets at fair value through profit or loss	**1,269,201**	1,067,525
Loans and advances to customers		
– Corporate loans and advances	**10,396,679**	6,930,209
– Personal loans and advances	**599,313**	645,924
– Discounted bills	**113,735**	21,302
Financial assets held under resale agreements	**216,957**	87,682
Available-for-sale debt investment	**1,561,599**	873,549
Held-to-maturity investment	**339,638**	297,216
Debt securities classified as receivables	**23,974,085**	17,151,867
Financial lease receivables	**355,462**	118,023
Sub-total	**39,943,533**	27,897,191
Interest expenses arising from		
Borrowing from the central bank	**2,593**	—
Deposits from banks and other financial institutions	**5,664,850**	5,723,145
Placements from banks and other financial institutions	**275,451**	42,496
Financial liabilities at fair value through profit or loss	**884,801**	670,490
Deposits from customers		
– Corporate customers	**5,313,818**	3,014,024
– Individual customers	**4,774,284**	2,224,640
Financial assets sold under repurchase agreements	**1,152,199**	588,392
Debts securities issued	**3,342,613**	185,795
Sub-total	**21,410,609**	12,448,982
Net interest income	**18,532,924**	15,448,209
Of which		
Interest income arising from impaired financial assets identified	**67,635**	35,907

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Net fee and commission income

	Years ended 31 December	
	2017	2016
Fee and commission income		
Agency services fees	**360,744**	205,069
Settlement and clearing fees	**203,581**	184,083
Wealth management service fees	**185,941**	245,069
Underwriting and advisory fees	**65,602**	226,673
Bank card service fees	**14,576**	17,374
Others	**2,389**	5,665
Sub-total	**832,833**	883,933
Fee and commission expense		
Settlement and clearing fees	**59,562**	43,393
Others	**36,597**	31,275
Sub-total	**96,159**	74,668
Net fee and commission income	**736,674**	809,265

5 Net trading (losses)/gains

	Years ended 31 December	
	2017	2016
Trading financial instruments		
– Debt securities	**(6,236)**	(7,700)
– Derivative financial instruments	**(237,132)**	24,302
– Precious metals	**(178)**	—
Sub-total	**(243,546)**	16,602
Financial instruments designated at fair value through profit or loss	**(34,718)**	33,346
Total	**(278,264)**	49,948

(Expressed in thousands of Renminbi, unless otherwise stated)

6 Net gains arising from investment securities

	Years ended 31 December	
	2017	2016
Net losses on disposal of available-for-sale financial assets	**(8,226)**	(43,975)
Net revaluation gains reclassified from other comprehensive income on disposal	**39,022**	54,323
Total	**30,796**	10,348

7 Operating expenses

	Years ended 31 December	
	2017	2016
Staff costs		
– Salaries and bonuses	**1,231,249**	943,042
– Staff welfares	**76,554**	61,570
– Pension	**160,301**	122,277
– Housing allowances	**84,870**	68,514
– Other social insurance	**73,439**	59,956
– Supplementary retirement benefits	**1,629**	466
– Other long-term staff welfares	**3,909**	14,703
– Others	**48,318**	37,680
Sub-total	**1,680,269**	1,308,208
Premises and equipment expenses		
– Depreciation of property and equipment	**313,165**	297,543
– Rental and property management expenses	**95,507**	82,395
– Amortization of other long-term assets	**58,667**	59,013
– Amortization of intangible assets	**31,361**	24,702
Sub-total	**498,700**	463,653
Tax and surcharges	**169,969**	328,405
Other general and administrative expenses (Note)	**959,200**	657,773
Total	**3,308,138**	2,758,039

Note: Auditors' remuneration for the years ended 31 December 2017 was RMB 5.00 million (2016: RMB4.50 million).

(Expressed in thousands of Renminbi, unless otherwise stated)

8 Directors' and supervisors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December 2017						
	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors							
Zhang Wei	—	468	1,440	1,908	382	183	2,473
Wang Jing	—	340	480	820	171	129	1,120
Wang Xiaoyu	—	113	344	457	96	84	637
Huo Lingbo(iii)	—	468	1,200	1,668	341	201	2,210
Non-executive directors							
Zhang Caiguang	—	—	—	—	—	—	—
Gu Jie	—	—	—	—	—	—	—
Independent directors							
Jiang Daxing(v)	431	—	—	431	—	—	431
Deng Xiaoyang(v)	431	—	—	431	—	—	431
Niu Sihu(v)	431	—	—	431	—	—	431
Jiang Jian(v)	431	—	—	431	—	—	431
Choon Yew Khee	431	—	—	431	—	—	431
Lin Yanjun(i)	215	—	—	215	—	—	215
Supervisors							
Li Xiu	—	104	424	528	112	99	739
He Baosheng	—	—	—	—	—	—	—
Cai Hongguang(vi)	—	—	—	—	—	—	—
Dai Shujun(vi)	—	—	—	—	—	—	—
Cao Wenqing(vi)	—	—	—	—	—	—	—
Li Wei(vi)	—	—	—	—	—	—	—
Chen Tanguang(vi)	—	—	—	—	—	—	—
He Mingyan(vi)	—	—	—	—	—	—	—

(Expressed in thousands of Renminbi, unless otherwise stated)

8 Directors' and supervisors' emoluments *(continued)*

	Year ended 31 December 2017						
	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
External supervisors							
Jing Fei(vii)	431	—	—	431	—	—	431
Chen Yingmei(vii)	431	—	—	431	—	—	431
Nie Ying	431	—	—	431	—	—	431
Li Tongyu	431	—	—	431	—	—	431
Zhao Hongxia	431	—	—	431	—	—	431
Former Executive directors							
Chen Man(iv)	—	300	600	900	191	168	1,259
Zhao Jie(ii)	—	—	120	120	24	10	154
Former Non-executive directors							
Li Dongjun(iv)	—	—	—	—	—	—	—
Wu Zhengkui(iv)	—	—	—	—	—	—	—
Former Supervisors							
Ning Yongfang(vi)	—	468	1,200	1,668	341	201	2,210
Xu Fei(vi)	—	240	480	720	151	120	991
Luo Yan(vi)	—	240	700	940	195	139	1,274
Shi Hongmiao(vi)	—	113	525	638	134	108	880
Tian Deying(vi)	—	—	—	—	—	—	—
Zhao Lanying(vi)	—	—	—	—	—	—	—
Total	4,525	2,854	7,513	14,892	2,138	1,442	18,472

(Expressed in thousands of Renminbi, unless otherwise stated)

8 Directors' and supervisors' emoluments *(continued)*

	Year ended 31 December 2016						
	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors							
Zhang Wei	—	468	1,440	1,908	382	196	2,486
Chen Man	—	300	—	300	71	119	490
Zhao Jie	—	40	480	520	105	57	682
Wang Jing	—	233	400	633	134	117	884
Wang Xiaoyu	—	113	345	458	96	86	640
Non-executive directors							
Li Dongjun	—	—	—	—	—	—	—
Zhang Caiguang	—	—	—	—	—	—	—
Wu Zhengkui	—	—	—	—	—	—	—
Gu Jie	—	—	—	—	—	—	—
Independent directors							
Jiang Daxing	210	—	—	210	—	—	210
Deng Xiaoyang	210	—	—	210	—	—	210
Niu Sihu	210	—	—	210	—	—	210
Jiang Jian	210	—	—	210	—	—	210
Choon Yew Khee	258	—	—	258	—	—	258
Supervisors							
Ning Yongfang	—	468	1,200	1,668	341	212	2,221
Xu Fei	—	240	480	720	151	125	996
Luo Yan	—	155	563	718	150	121	989
Shi Hongmiao	—	98	439	537	113	95	745
Li Xiu	—	90	366	456	97	91	644
Tian Deying	—	—	—	—	—	—	—
He Baosheng	—	—	—	—	—	—	—
Zhao Lanying	—	—	—	—	—	—	—
External supervisors							
Jing Fei	210	—	—	210	—	—	210
Chen Yingmei	210	—	—	210	—	—	210
Nie Ying	210	—	—	210	—	—	210
Li Tongyu	210	—	—	210	—	—	210
Zhao Hongxia	210	—	—	210	—	—	210
Total	2,148	2,205	5,713	10,066	1,640	1,219	12,925

8 Directors' and supervisors' emoluments *(continued)*

There was no amount paid during the reporting period to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the reporting period.

Notes:

(i) At the Bank's shareholders' annual general meeting on June 29th, 2016, Lin Yanjun was elected as an independent non-executive director. China Banking Regulatory Commission (CBRC) Liaoning regulatory authority has approved the election and the tenure begins on January 25th, 2017.

(ii) At the Meeting of the Board on December 5th, 2016, Zhao Jie ceased to serve as the director of the Bank. According to the Articles of Association and it took effect on July 28th, 2017.

(iii) At the Bank's First Extraordinary General Meeting held on February 8th, 2017, Huo Lingbo was elected as director of the Bank. China Banking Regulatory Commission (CBRC) Liaoning regulatory authority has approved the election and the tenure begins on July 28th, 2017.

(iv) At the Bank's Second Extraordinary General Meeting held on December 29th, 2017, Liu Hong, Sun Jing, Wang Jinsong, Meng Xiao were elected as non-independent directors of the Bank, and Chen Man, Li Dongjun, Wu Zhengkui ceased to serve as the non-independent directors. China Banking Regulatory Commission (CBRC) Liaoning regulatory authority has approved the election. The tenure of Liu Hong began on February 9th, 2017. The tenure of Sun Jing, Wang Jinsong, Meng Xiao began on February 11th, 2018.

(v) At the Bank's Second Extraordinary General Meeting held on December 29th, 2017, Chang Pengao, Peng Taoying, Tan Ying were elected as independent directors of the Bank. China Banking Regulatory Commission (CBRC) Liaoning regulatory authority has approved the election and the tenure begins on February 11th, 2018. According to the Articles of Association, Jiang Daxing, Deng Xiaoyang, Niu Sihu, Jiang Jian ceased to serve as the independent directors on February 11th, 2018.

(vi) At the Bank's Second Extraordinary General Meeting held on December 29th, 2017, Cai Hongguang, Dai Shujun, Cao Wenqing, Li Wei, Chen Tanguang, He Mingyan were elected as supervisors of the Bank, and Ning Yongfang, Xu Fei, Luo Yan, Shi Hongmiao, Tian Deying, Zhao Lanying ceased to serve as the supervisors.

(vii) At the Bank's Second Extraordinary General Meeting held on December 29th, 2017, Jiang Daxing, Deng Xiaoyang were elected as external supervisors of the Bank. According to the Articles of Association, the tenure began on February 11th, 2018. Jing Fei, Chen Yingmei ceased to serve as the external supervisors on February 11th, 2018.

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Individuals with highest emoluments

None of the five individuals with the highest emoluments is director or supervisor (2016: none). The aggregate of the emoluments of the five highest paid individuals are as follows:

	Years ended 31 December	
	2017	2016
Salaries and other emoluments	**530**	1,377
Discretionary bonuses	**17,138**	13,268
Contributions to pension schemes	**3,315**	2,929
Others	**1,983**	2,577
Total	**22,966**	20,151

The emoluments of the five individuals with the highest emoluments are within the following bands:

	Years ended 31 December	
	2017	2016
HKD4,000,001 - 4,500,000	**2**	4
HKD4,500,001 - 5,000,000	—	—
HKD5,000,001 - 5,500,000	**1**	1
HKD5,500,001 - 6,000,000	—	—
HKD6,000,001 - 6,500,000	**1**	—
HKD6,500,001 - 7,000,000	—	—
HKD7,000,001 - 7,500,000	**1**	—

None of these individuals received any inducement to join or upon joining the Group or compensation for loss of office, or waived any emoluments during the reporting period.

10 Impairment losses on assets

	Years ended 31 December	
	2017	2016
Loans and advances to customers	**1,623,208**	1,153,424
Debt securities classified as receivables	**1,685,216**	1,583,849
Financial lease receivables	**132,748**	47,154
Others	**3,351**	468
Total	**3,444,523**	2,784,895

(Expressed in thousands of Renminbi, unless otherwise stated)

11 Income tax expense

(a) Income tax expense:

	Note	Years ended 31 December 2017	2016
Current tax expense		**3,646,817**	3,263,781
Deferred tax expense	27(b)	**(683,544)**	(592,312)
Total		**2,963,273**	2,671,469

(b) Reconciliations between income tax and accounting profit are as follows:

	Years ended 31 December 2017	2016
Profit before tax	**12,053,331**	10,870,915
Statutory tax rate	**25%**	25%
Income tax calculated at statutory tax rate	**3,013,333**	2,717,729
Non-deductible expenses		
– Staff costs	**1,613**	581
– Others	**1,531**	3,444
	3,144	4,025
Non-taxable income		
– Interest income from the PRC government bonds	**(37,558)**	(36,374)
– Others	**(15,646)**	(13,911)
Income tax expense	**2,963,273**	2,671,469

12 Basic and diluted earnings per share

	Years ended 31 December	
	2017	2016
Weighted average number of ordinary shares (in thousands)	**6,781,616**	5,789,835
Net profit attributable to equity shareholders of the Bank	**8,976,990**	8,129,590
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**1.32**	1.40

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

	Years ended 31 December	
	2017	2016
Number of ordinary shares as at 1 January (in thousands)	**6,781,616**	5,781,616
New added weighted average number of ordinary shares (in thousands)	—	8,219
Weighted average number of ordinary shares (in thousands)	**6,781,616**	5,789,835

13 Cash and deposits with the central bank

		31 December	
	Note	**2017**	2016
Cash on hand		**614,480**	573,486
Deposits with the central bank			
– Statutory deposit reserves	(a)	**48,095,051**	39,146,434
– Surplus deposit reserves	(b)	**3,274,482**	3,743,647
– Fiscal deposits		**133,497**	202,960
Sub-total		**51,503,030**	43,093,041
Total		**52,117,510**	43,666,527

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Cash and deposits with the central bank *(continued)*

(a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at 31 December 2017 and 2016, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2017	2016
Reserve ratio for RMB deposits	**13.5%**	13.5%
Reserve ratio for foreign currency deposits	**5.0%**	5.0%

The statutory deposit reserves are not available for the Group's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

14 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

	31 December 2017	2016
Deposits in mainland China		
– Banks	**8,675,412**	1,850,647
– Other financial institutions	**3,050**	3,197
Sub-total	**8,678,462**	1,853,844
Deposits outside mainland China		
– Banks	**939,232**	6,819,789
Sub-total	**939,232**	6,819,789
Total	**9,617,694**	8,673,633

15 Placements with banks and other financial institutions

	31 December 2017	2016
Placements in mainland China		
– Other financial constitution	**2,500,000**	—

(Expressed in thousands of Renminbi, unless otherwise stated)

16 Financial assets at fair value through profit or loss

	Note	31 December 2017	2016
Debt securities held for trading	(a)	**1,005,451**	61,715
Financial assets designated at fair value through profit or loss	(b)	**22,507,706**	21,089,421
Precious metals		**13,651**	—
Total		**23,526,808**	21,151,136

(a) Debt securities held for trading

	31 December 2017	2016
Issued by institutions in mainland China		
– Government	**28,900**	—
– Banks and other financial institutions	**976,551**	61,715
Total	**1,005,451**	61,715
Listed	**1,005,451**	61,715
Total	**1,005,451**	61,715

Note: As at the end of the reporting period, part of the debt securities held for trading was pledged for repurchase agreements (Note 29(a)).

(b) Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss represented investments in debt securities with proceeds raised from principal-guaranteed wealth management products issued by the Group. The Group accounts for the corresponding investment funds under financial liabilities designated at fair value through profit or loss.

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Derivatives

Derivative financial instruments include forward contracts undertaken by the Group in foreign currency markets. The Group uses derivative financial instruments in the management of its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and the corresponding fair values at the end of the reporting period. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting period, they do not represent amounts at risk.

(a) Analysed by nature of contract

	At 31 December 2017		
		Fair value	
	Notional amount	**Assets**	**Liabilities**
Currency derivatives			
– Foreign exchange forward	**16,073,876**	**1,409**	**(722,982)**

	At 31 December 2016		
		Fair value	
	Notional amount	Assets	Liabilities
Currency derivatives			
– Foreign exchange forward	1,807,435	53,858	(7,938)

(b) Analysed by credit risk-weighted amounts

	31 December	
	2017	2016
Currency derivatives		
– Foreign exchange forward	**40,185**	4,519

Note: The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBRC.

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

	31 December 2017	2016
In Mainland China		
– Banks	**3,083,594**	—
– Other financial institutions	**489,200**	—
Total	**3,572,794**	—

(b) Analyzed by type of security held

	31 December 2017	2016
Debt securities		
– Financial bonds	**1,589,750**	—
– Government bonds	**1,063,100**	—
– Corporate bonds	**120,000**	—
Sub-total	**2,772,850**	—
Bank acceptance	**799,944**	—
Total	**3,572,794**	—

19 Interests receivable

	31 December 2017	2016
Interests receivable from investments	**3,050,966**	2,793,458
Interests receivable from loans and advances to customers	**1,019,513**	647,884
Interests receivable from deposits and placements with banks and other financial institutions	**158,441**	114,106
Total	**4,228,920**	3,555,448

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers

(a) Analyzed by nature

	31 December 2017	2016
Corporate loans and advances	**202,487,355**	117,553,214
Personal loans and advances		
– Personal business loans	**8,641,737**	7,896,781
– Residential mortgage loans	**747,574**	723,438
– Personal consumption loans	**645,395**	478,482
– Credit cards	**125,988**	106,243
– Others	**406**	481
Sub-total	**10,161,100**	9,205,425
Discounted bills	**2,472,719**	41,444
Gross loans and advances to customers	**215,121,174**	126,800,083
Less: Provision for impairment losses		
– Individually assessed	**(1,266,689)**	(965,681)
– Collectively assessed	**(4,769,538)**	(3,903,641)
Total provision for impairment losses	**(6,036,227)**	(4,869,322)
Net loans and advances to customers	**209,084,947**	121,930,761

Note: As at the end of the reporting period, part of Discounted bills of the Loans and advances to customers was pledged for repurchase agreements (Note 29(a)).

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(b) Analyzed by industry sector

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	107,983,226	50.20%	53,721,643
Manufacturing	34,526,186	16.06%	24,041,546
Real estate	14,611,490	6.79%	11,727,324
Leasing and commercial services	11,297,965	5.25%	7,780,185
Public management and social organization	8,160,339	3.79%	50,000
Education	5,573,015	2.59%	1,178,760
Electricity, gas and water production and supply	2,524,672	1.17%	2,387,090
Mining	2,312,522	1.07%	1,803,640
Construction	2,088,328	0.97%	1,156,675
Transportation, storage and postal services	1,704,719	0.79%	937,005
Agriculture, forestry, animal husbandry and fishery	1,540,602	0.72%	1,378,472
Water, environment and public utility management	1,326,750	0.62%	1,126,750
Others	8,837,541	4.11%	5,568,730
Sub-total of corporate loans and advances	202,487,355	94.13%	112,857,820
Personal loans and advances	10,161,100	4.72%	8,497,744
Discounted bills	2,472,719	1.15%	—
Gross loans and advances to customers	215,121,174	100.00%	121,355,564
Less: Provision for impairment losses			
– Individually assessed	(1,266,689)		
– Collectively assessed	(4,769,538)		
Total provision for impairment losses	(6,036,227)		
Net loans and advances to customers	209,084,947		

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(b) Analyzed by industry sector *(continued)*

	31 December 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	39,985,815	31.54%	22,130,343
Manufacturing	37,272,136	29.40%	18,195,052
Real estate	13,774,113	10.86%	12,189,393
Leasing and commercial services	6,426,944	5.07%	5,062,865
Electricity, gas and water production and supply	3,822,215	3.01%	1,509,233
Education	3,213,742	2.53%	409,050
Transportation, storage and postal services	2,802,067	2.21%	2,376,014
Mining	1,801,952	1.42%	1,517,750
Construction	1,647,035	1.30%	823,185
Agriculture, forestry, animal husbandry and fishery	1,534,475	1.21%	1,027,146
Water, environment and public utility management	1,352,440	1.07%	1,348,440
Public management and social organization	242,750	0.19%	132,000
Others	3,677,530	2.90%	1,838,987
Sub-total of corporate loans and advances	117,553,214	92.71%	68,559,458
Personal loans and advances	9,205,425	7.26%	7,500,459
Discounted bills	41,444	0.03%	—
Gross loans and advances to customers	126,800,083	100.00%	76,059,917
Less: Provision for impairment losses			
– Individually assessed	(965,681)		
– Collectively assessed	(3,903,641)		
Total provision for impairment losses	(4,869,322)		
Net loans and advances to customers	121,930,761		

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(b) Analyzed by industry sector *(continued)*

As at the end of each of the reporting period and during the respective periods, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	31 December 2017				
	Impaired loans and advances	**Individually assessed provision for impairment losses**	**Collectively assessed provision for impairment losses**	**Impairment charged during the year**	**Written-off during the year**
Manufacturing	**984,879**	**(639,213)**	**(1,598,947)**	**(403,750)**	—
Wholesale and retail trade	**568,118**	**(326,278)**	**(1,180,427)**	**(666,915)**	—

	31 December 2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	829,449	(586,834)	(1,703,878)	(815,993)	—
Wholesale and retail trade	357,080	(251,008)	(588,781)	(185,315)	—
Real estate	12,243	(6,745)	(863,757)	(152,715)	—

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(c) Analyzed by type of collateral

	31 December 2017	2016
Unsecured loans	**17,226,342**	4,788,651
Guaranteed loans	**76,539,268**	45,951,515
Secured loans		
– By tangible assets other than monetary assets	**55,872,860**	56,164,010
– By monetary assets	**65,482,704**	19,895,907
Gross loans and advances to customers	**215,121,174**	126,800,083
Less:Provision for impairment losses		
– Individually assessed	**(1,266,689)**	(965,681)
– Collectively assessed	**(4,769,538)**	(3,903,641)
Total provision for impairment losses	**(6,036,227)**	(4,869,322)
Net loans and advances to customers	**209,084,947**	121,930,761

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(d) Overdue loans analyzed by overdue period

	31 December 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	2,539	2,935	4,790	377	10,641
Guaranteed loans	313,572	231,422	420,158	263,720	1,228,872
Secured loans					
– By tangible assets other than monetary assets	453,515	270,029	724,970	105,931	1,554,445
– By monetary assets	103,829	63,960	87,250	46,553	301,592
Total	873,455	568,346	1,237,168	416,581	3,095,550
As a percentage of gross loans and advances to customers	0.41%	0.26%	0.58%	0.19%	1.44%

	31 December 2016				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	3,049	5,772	1,564	447	10,832
Guaranteed loans	196,731	1,488,540	276,142	257,510	2,218,923
Secured loans					
– By tangible assets other than monetary assets	338,145	1,437,927	467,897	101,362	2,345,331
– By monetary assets	162,735	173,810	190,829	1,253	528,627
Total	700,660	3,106,049	936,432	360,572	5,103,713
As a percentage of gross loans and advances to customers	0.55%	2.45%	0.74%	0.29%	4.03%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(e) Loans and advances and provision for impairment losses

	31 December 2017			
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	**212,874,241**	**2,246,933**	**215,121,174**	**1.04%**
Less: Provision for impairment losses	**(4,769,538)**	**(1,266,689)**	**(6,036,227)**	
Net loans and advances to customers	**208,104,703**	**980,244**	**209,084,947**	

	31 December 2016			
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	125,352,165	1,447,918	126,800,083	1.14%
Less: Provision for impairment losses	(3,903,641)	(965,681)	(4,869,322)	
Net loans and advances to customers	121,448,524	482,237	121,930,761	

Notes:

(i) Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the individually assessment methods.

(iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 50(a).

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(f) Movements of provision for impairment losses

	2017 Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
As at 1 January	**(3,903,641)**	**(965,681)**	**(4,869,322)**
Charge for the year	**(865,897)**	**(900,830)**	**(1,766,727)**
Release for the year	—	**143,519**	**143,519**
Unwinding of discount	—	**67,635**	**67,635**
Disposal	—	**388,668**	**388,668**
As at 31 December	**(4,769,538)**	**(1,266,689)**	**(6,036,227)**

	2016 Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
As at 1 January	(3,114,472)	(746,732)	(3,861,204)
Charge for the year	(789,169)	(561,999)	(1,351,168)
Release for the year	—	197,744	197,744
Recoveries	—	(2,051)	(2,051)
Unwinding of discount	—	35,907	35,907
Disposal	—	111,450	111,450
As at 31 December	(3,903,641)	(965,681)	(4,869,322)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(g) Analyzed by geographical sector

	31 December 2017		
	Loan balance	Percentage	Loans and advances secured by collaterals
Jinzhou	**94,994,969**	**44.16%**	**42,371,313**
Northeastern China	**80,794,895**	**37.56%**	**57,925,442**
Northern China	**39,331,310**	**18.28%**	**21,058,809**
Gross loans and advances to customers	**215,121,174**	**100.00%**	**121,355,564**

	31 December 2016		
	Loan balance	Percentage	Loans and advances secured by collaterals
Jinzhou	64,530,235	50.89%	38,341,891
Northeastern China	34,692,316	27.36%	25,244,412
Northern China	27,577,532	21.75%	12,473,614
Gross loans and advances to customers	126,800,083	100.00%	76,059,917

As at the end of each of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2017		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Jinzhou	**712,592**	**(370,083)**	**(2,142,437)**
Northeastern China	**1,135,922**	**(650,173)**	**(1,593,577)**
Northern China	**398,419**	**(246,433)**	**(1,033,524)**

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers *(continued)*

(g) Analyzed by geographical sector *(continued)*

	31 December 2016		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Jinzhou	463,605	(260,832)	(2,041,682)
Northeastern China	738,934	(539,435)	(1,182,713)
Northern China	245,379	(165,414)	(679,246)

The definitions of the regional distributions are set out in Note 49(b).

21 Available-for-sale financial assets

		31 December	
	Note	**2017**	2016
Available-for-sale debt investments	(a)	**50,638,949**	34,664,662
Available-for-sale equity investments	(b)	**58,250**	58,250
Total		**50,697,199**	34,722,912
Listed		**41,009,388**	32,783,584
Unlisted		**9,687,811**	1,939,328
Total		**50,697,199**	34,722,912

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Available-for-sale financial assets *(continued)*

(a) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following institutions:

	31 December	
	2017	2016
In mainland China		
– Government	**2,324,942**	998,188
– Banks and other financial institutions	**47,215,613**	30,749,630
– Corporations	**900,506**	2,916,844
Sub-total	**50,441,061**	34,664,662
Outside mainland China		
– Banks and other financial institutions	**197,888**	—
Sub-total	**197,888**	—
Total	**50,638,949**	34,664,662

As at the end of each of the reporting period, part of the available-for-sale financial assets was pledged for repurchase agreements (Note 29(a)).

(b) Available-for-sale equity investments

Available-for-sale unlisted equity investments which do not have any quoted market price and whose fair values cannot be measured reliably are stated at cost less impairment losses, if any.

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Held-to-maturity investments

Analyzed by type and location of issuers

	Note	31 December 2017	2016
Debt securities issued by the following institutions in mainland China			
– Government		**3,832,750**	4,331,042
– Banks and other financial institutions		**3,926,073**	6,085,197
– Corporations		**19,841**	19,788
Total carrying value	(a)	**7,778,664**	10,436,027
Listed		**7,778,664**	10,436,027
Fair value		**7,617,355**	10,189,621

Notes:

(a) As at the end of each of the reporting period, part of the held-to-maturity investments was pledged as security for repurchase agreements (Note 29(a)).

(b) The Group has not disposed of any held-to-maturity debt investments prior to their maturity dates during the reporting period.

23 Debt securities classified as receivables

	Note	31 December 2017	2016
Wealth management products issued by financial institutions	(a)	**200,088**	200,088
Beneficial interest transfer plans	(b)	**346,673,345**	283,571,571
Gross balance		**346,873,433**	283,771,659
Less: Provision for impairment losses		**(3,503,866)**	(2,091,118)
Net balance		**343,369,567**	281,680,541

Notes:

(a) Wealth management products issued by financial institutions are fixed-term products.

(b) Beneficial interest transfer plans are mainly beneficial interests issued by trust companies, security companies, insurance companies and asset management companies.

(c) The fair values of investments mentioned in Notes (a) and (b) approximate to their carrying amounts.

(d) As at the end of each of the reporting period, part of the debt securities classified as receivables was pledged for repurchase agreements (Note 29(a)).

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Financial lease receivables

	31 December 2017	2016
Minimum finance lease receivables	**7,584,316**	5,278,052
Less: unearned finance lease income	**(564,073)**	(615,407)
Present value of finance lease receivables	**7,020,243**	4,662,645
Less: Provision for impairment losses	**(179,902)**	(47,154)
Net balance	**6,840,341**	4,615,491

Finance lease receivables, unearned finance lease income and minimum finance lease receivables analyzed by remaining period are listed as follows:

	2017			2016		
	Minimum finance lease receivables	**Unearned finance lease income**	**Present value of finance lease receivables**	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Less than 1 year	**3,454,890**	**(306,903)**	**3,147,987**	1,421,445	(263,494)	1,157,951
1 year to 2 years	**2,333,277**	**(155,970)**	**2,177,307**	1,514,665	(185,754)	1,328,911
2 years to 3 years	**1,132,050**	**(73,743)**	**1,058,307**	1,224,188	(101,571)	1,122,617
3 years to 5 years	**664,099**	**(27,457)**	**636,642**	1,021,964	(61,917)	960,047
More than 5 years	—	—	—	95,790	(2,671)	93,119
Indefinite*	—	—	—	—	—	—
	7,584,316	**(564,073)**	**7,020,243**	5,278,052	(615,407)	4,662,645

* The indefinite period amount represents the balances being impaired or overdue for more than one month.

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Investments in subsidiaries

	Note	31 December 2017	2016
Taihe Jinyin Village Bank Co., Ltd. (“錦州太和錦銀村鎮銀行股份有限公司”)	(a)	**60,450**	60,450
Yixian Jinyin Village Bank Co., Ltd. (“遼寧義縣錦銀村鎮銀行股份有限公司”)	(b)	**63,240**	63,240
Beizhen Jinyin Village Bank Co., Ltd. (“遼寧北鎮錦銀村鎮銀行股份有限公司”)	(c)	**49,290**	49,290
Heishan Jinyin Village Bank Co., Ltd. (“遼寧黑山錦銀村鎮銀行股份有限公司”)	(d)	**57,750**	57,750
Kazuo Jinyin Village Bank Co., Ltd. (“遼寧喀左錦銀村鎮銀行股份有限公司”)	(e)	**49,900**	49,900
Linghai Jinyin Village Bank Co., Ltd. (“遼寧淩海錦銀村鎮銀行股份有限公司”)	(f)	**49,900**	49,900
Huanren Jinyin Village Bank Co., Ltd. (“遼寧桓仁錦銀村鎮銀行股份有限公司”)	(g)	**49,000**	49,000
Bank of Jinzhou Financial Leasing Co., Ltd. (“錦銀金融租賃有限責任公司”)	(h)	**1,500,000**	1,500,000
Total		**1,879,530**	1,879,530

Notes:

(a) Taihe Jinyin Village Bank Co., Ltd. (“Taihe Jinyin”) was incorporated on 27 January 2010 at Jinzhou, Liaoning Province, with registered capital of RMB103.21 million. The principal activities of Taihe Jinyin are the provision of corporate and retail banking services. The Bank holds 58.57% of equity interest and voting rights of Taihe Yimin. The financial statements of Taihe Jinyin for the years ended 31 December 2017 and 2016 were audited by KPMG Huazhen LLP.

(b) Yixian Jinyin Village Bank Co., Ltd. (“Yixian Jinyin”) was incorporated on 8 November 2010 at Jinzhou, Liaoning Province, with registered capital of RMB128.49 million. The principal activities of Yixian Jinyin are the provision of corporate and retail banking services. The Bank holds 49.22% of equity interest and 67.90% voting rights of Yixian Jinyin. The financial statements of Yixian Jinyin for the years ended 31 December 2017 and 2016 were audited by KPMG Huazhen LLP.

(c) Beizhen Jinyin Village Bank Co., Ltd. (“Beizhen Jinyin”) was incorporated on 2 March 2011 at Jinzhou, Liaoning Province, with registered capital of RMB103.25 million. The principal activities of Beizhen Jinyin are the provision of corporate and retail banking services. The Bank holds 47.74% of equity interest and 93.55% voting rights of Beizhen Jinyin. The financial statements of Beizhen Jinyin for the years ended 31 December 2017 and 2016 were audited by KPMG Huazhen LLP.

25 Investments in subsidiaries *(continued)*

Notes: *(continued)*

(d) Heishan Jinyin Village Bank Co., Ltd. ("Heishan Jinyin") was incorporated on 28 January 2014 at Jinzhou, Liaoning Province, with registered capital of RMB119.00 million. The principal activities of Heishan Jinyin are the provision of corporate and retail banking services. The Bank holds 48.53% of equity interest and 66.59% of voting rights of Heishan Jinyin. The financial statements for the years ended 31 December 2017 and 2016 were audited by KPMG Huazhen LLP.

(e) Kazuo Jinyin Village Bank Co., Ltd. ("Kazuo Jinyin") was incorporated on 27 November 2015 at Chaoyang, Liaoning Province, with registered capital of RMB100.00 million. The principal activities of Kazuo Jinyin are the provision of corporate and retail banking services. The Bank holds 49.90% of equity interest and 64.90% of voting rights of Kazuo Jinyin. The financial statements for the year ended 31 December 2017 and 2016 were audited by KPMG Huazhen LLP.

(f) Linghai Jinyin Village Bank Co., Ltd. ("Linghai Jinyin") was incorporated on 16 December 2016 at Jinzhou, Liaoning Province, with registered capital of RMB100.47million. The principal activities of Linghai Jinyin are the provision of corporate and retail banking services. The Bank holds 49.67% of equity interest and 59.62% of voting rights of Linghai Jinyin. The financial statements for the year ended 31 December 2017 was audited by KPMG Huazhen LLP.

(g) Huanren Jinyin Village Bank Co., Ltd. ("Huanren Jinyin") was incorporated on 20 December 2016 at Benxi, Liaoning Province, with registered capital of RMB100.00 million. The principal activities of Huanren Jinyin are the provision of corporate and retail banking services. The Bank holds 49.00% of equity interest and 100.00% of voting rights of Huanren Jinyin. The financial statements for the year ended 31 December 2017 was audited by KPMG Huazhen LLP.

(h) Bank of Jinzhou Financial Leasing Co., Ltd. ("Jinyin Leasing") was incorporated on 1 December 2015 at Shenyang, Liaoning Province, with the original registered capital of RMB1.00 billion. The principal activities of Jinyin Leasing are the provision of financial leasing services. In March 2016, the registered capital increased from RMB1.00 billion to RMB4.90 billion and the Bank subscribed RMB0.9 billion. As at 31 December 2017, the Bank holds 30.61% of equity interest and 71.43% voting rights of Jinyin Leasing. The financial statements for the year ended 31 December 2017 and 2016 were audited by KPMG Huazhen LLP.

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Property and equipment

	Premises	Construction in progress	Motor vehicles	Leasehold improvements	Others	Total
Cost						
As at 1 January 2016	5,503,168	371,986	67,463	160,754	591,357	6,694,728
Additions	226,442	714,670	5,078	3,347	53,342	1,002,879
Transfers in/(out) of construction in progress	800,512	(812,620)	—	12,108	—	—
Transfers out to other assets	—	(32,105)	—	—	—	(32,105)
Disposals	—	—	(701)	—	—	(701)
As at 31 December 2016	6,530,122	241,931	71,840	176,209	644,699	7,664,801
As at 1 January 2017	6,530,122	241,931	71,840	176,209	644,699	7,664,801
Additions	244,798	301,087	2,851	11,005	86,029	645,770
Transfers in/(out) of construction in progress	42,388	(42,388)	—	—	—	—
Transfers out to other assets	—	(22,357)	—	—	—	(22,357)
As at 31 December 2017	6,817,308	478,273	74,691	187,214	730,728	8,288,214
Accumulated depreciation						
As at 1 January 2016	(754,899)	—	(50,342)	(56,802)	(363,805)	(1,225,848)
Charge for the year	(200,993)	—	(5,804)	(16,751)	(73,995)	(297,543)
Disposals	—	—	666	—	—	666
As at 31 December 2016	(955,892)	—	(55,480)	(73,553)	(437,800)	(1,522,725)
As at 1 January 2017	(955,892)	—	(55,480)	(73,553)	(437,800)	(1,522,725)
Charge for the year	(216,751)	—	(5,036)	(18,104)	(73,274)	(313,165)
As at 31 December 2017	(1,172,643)	—	(60,516)	(91,657)	(511,074)	(1,835,890)
Net book value						
As at 31 December 2016	5,574,230	241,931	16,360	102,656	206,899	6,142,076
As at 31 December 2017	5,644,665	478,273	14,175	95,557	219,654	6,452,324

As at 31 December 2017, title deeds were not yet finalized for the premises with a carrying amount of RMB1,896 million (2016: RMB1,917 million). Among them, the carrying amount of premises that the Group has obtained housing property title certificates issued by the authorities but no land use certificates was RMB1,037million (2016: RMB1,171 million). According to the opinions of the Group's external legal counsels, the Group is the legal owner of the aforementioned premises and entitled to occupy, use, transfer, pledge and dispose of these premises. Management of the Group expected that there would be no significant costs in obtaining the title deeds.

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Property and equipment *(continued)*

The net book values of premises at the end of each of the reporting period are analyzed by the remaining terms of the leases as follows:

	31 December 2017	2016
Held in mainland China		
– Long-term leases (over 50 years)	**68,622**	84,772
– Medium-term leases (10 - 50 years)	**5,561,734**	5,474,640
– Short-term leases (less than 10 years)	**14,309**	14,818
Total	**5,644,665**	5,574,230

27 Deferred tax assets and liabilities

(a) Analyzed by nature

	31 December 2017	2016
Deferred tax assets	**2,379,845**	1,476,339

(b) Movements of deferred tax

	Provision for impairment losses Note (i)	Staff cost payable	Net gains from fair value changes of financial instruments Note (ii)	Others	Net balance of deferred tax assets
1 January 2016	856,241	43,642	(195,657)	(3,404)	700,822
Recognized in profit or loss	584,703	1,340	(5,507)	11,776	592,312
Recognized in other comprehensive income	—	—	183,205	—	183,205
31 December 2016	1,440,944	44,982	(17,959)	8,372	1,476,339
Recognized in profit or loss	**609,636**	**1,292**	**45,738**	**26,878**	**683,544**
Recognized in other comprehensive income	—	—	**219,962**	—	**219,962**
31 December 2017	**2,050,580**	**46,274**	**247,741**	**35,250**	**2,379,845**

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Deferred tax assets and liabilities *(continued)*

(b) Movements of deferred tax *(continued)*

Notes:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of each of the reporting period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of each of the reporting period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

28 Other assets

	31 December	
	2017	2016
Repossessed assets	**602,610**	39,260
Intangible assets	**182,643**	148,166
Long-term deferred expense	**117,882**	157,797
Deferred expense	**88,994**	74,012
Value-added tax	**83,565**	168,595
Land use right	**82,988**	85,299
Other receivables	**90,946**	281,644
Total	**1,249,628**	954,773

(Expressed in thousands of Renminbi, unless otherwise stated)

29 Pledged assets

(a) Assets pledged as collateral

	Note	31 December 2017	2016
For repurchase agreements:			
– Available-for-sale debt investments	21(a)	**33,538,917**	29,227,875
– Held-to-maturity investments	22(a)	**4,599,500**	6,314,906
– Debt securities held for trading	16(a)	**997,139**	30,980
– Discounted bills	20(a)	**990,169**	—
– Debt securities classified as receivables	23(d)	**—**	1,290,000
Total		**40,125,725**	36,863,761

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at the end of the reporting period, the Group did not hold any resale agreement under which collaterals were permitted to be sold or repledged in the absence of the counterparty's default.

30 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	31 December 2017	2016
Deposits in mainland China		
– Banks	**78,318,057**	59,893,668
– Other financial institutions	**56,219,372**	71,134,785
Total	**134,537,429**	131,028,453

31 Placements from banks and other financial institutions

Analyzed by type and location of counterparty

	31 December 2017	2016
Placements in mainland China		
– Banks	**13,466,127**	3,866,521

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

	31 December 2017	2016
In mainland China		
– Banks	**26,690,936**	26,182,972
– Other financial institutions	**12,373,494**	8,981,220
Total	**39,064,430**	35,164,192

(b) Analyzed by collateral

	31 December 2017	2016
Debt securities	**38,074,261**	31,306,932
Discounted Bills	**990,169**	—
Interbank certificates of deposit	—	2,567,260
Beneficial interest transfer plans	—	1,290,000
Total	**39,064,430**	35,164,192

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Deposits from customers

	31 December 2017	2016
Demand deposits		
– Corporate customers	**48,135,836**	48,490,755
– Individual customers	**14,276,141**	12,855,115
Sub-total	**62,411,977**	61,345,870
Time deposits		
– Corporate customers	**101,556,457**	75,159,227
– Individual customers	**132,996,662**	74,793,814
Sub-total	**234,553,119**	149,953,041
Pledged deposits		
– Acceptances	**20,301,291**	20,577,875
– Letters of guarantees	**4,955,820**	4,080,501
– Letters of credit	**3,975,529**	3,521,704
– Others	**9,281**	8,392
Sub-total	**29,241,921**	28,188,472
Inward and outward remittances	**111,982**	50,848
Structured deposits		
– Corporate customers	**11,691,419**	16,344,740
– Individual customers	**4,253,810**	7,086,240
Sub-total	**15,945,229**	23,430,980
Total	**342,264,228**	262,969,211

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Accrued staff costs

		31 December	
	Note	**2017**	2016
Salary and welfare payable		**117,270**	97,334
Pension payable	(a)	**29,842**	30,236
Supplementary retirement benefits payable	(b)	**28,043**	24,780
Other long-term staff welfare payable	(c)	**84,362**	100,918
Total		**259,517**	253,268

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labor and social security organizations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organizations.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of each of the reporting period. The Group's obligations in respect of the SRB were assessed using expected cumulative unit credit method by qualified staff (a member of society of Actuaries in America) of Towers Watson Management Consulting Co., Ltd., an external independent actuary.

(i) The balances of SRB of the Group are as follows:

	31 December	
	2017	2016
Present value of SRB obligation	**28,043**	24,780

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Accrued staff costs *(continued)*

(b) Supplementary retirement benefits ("SRB") *(continued)*

(ii) Movements of SRB of the Group are as follows:

	2017	2016
As at 1 January	**24,780**	24,452
Service cost	**708**	(444)
Interest cost	**921**	910
Actuarial losses	**2,100**	247
Payments made	**(466)**	(385)
As at 31 December	**28,043**	24,780

Service cost and interest cost were recognized in staff costs, see Note 7.

(iii) Principal actuarial assumptions of the Group are as follow:

	31 December	
	2017	2016
Discount rate	**4.25%**	3.75%
Mortality	**CL5/CL6**	CL3/CL4
Demission Rate	**2.00%**	2.00%
Normal retirement age		
Male	**60**	60
Female	**55**	55

(iv) Sensitivity analysis:

	31 December 2017		31 December 2016	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	**(4,542)**	**5,920**	(4,076)	5,310
Demission rate (1% movement)	**(1,688)**	**1,956**	(1,576)	1,836

Although the analysis does not take account of the full distribution of cash flows expected under the SRB, it does provide an approximation of the sensitivity of the assumptions shown.

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Accrued staff costs *(continued)*

(c) Other long-term staff welfare payable

The Group pays compensation for long-term absence of eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of each of the reporting period. The Group's obligations in respect of other long-term staff welfare payable were assessed using expected cumulative unit credit method by qualified staff (a member of society of Actuaries in America) of Towers Watson Management Consulting Co., Ltd., an external independent actuary.

(i) The balances of other long-term staff welfare payable of the Group are as follows:

	31 December	
	2017	2016
Present value of other long-term staff welfare payable obligation	**84,362**	100,918

(ii) Movements of other long-term staff welfare of the Group are as follows:

	2017	2016
As at 1 January	**100,918**	108,526
Service cost	—	11,513
Interest cost	**2,509**	2,717
Actuarial losses	**1,400**	473
Payments made	**(20,465)**	(22,311)
As at 31 December	**84,362**	100,918

Service cost, Interest cost and actuarial losses were recognized in staff costs, see Note 7.

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Accrued staff costs *(continued)*

(c) Other long-term staff welfare payable *(continued)*

(iii) Principal actuarial assumptions of the Group are as follow:

	31 December	
	2017	2016
Discount rate	**3.75%**	2.75%
Mortality	**CL5/CL6**	CL3/CL4
Early retirement wage growth rate	**4.00%**	4.00%

(iv) Sensitivity analysis:

	31 December 2017		31 December 2016	
	Increase	**Decrease**	Increase	Decrease
Discount rate (1% movement)	**(3,420)**	**3,735**	(4,278)	4,690
Early retirement wage growth rate (1% movement)	**3,237**	**(3,025)**	4,036	(3,760)

Although the analysis does not take account of the full distribution of cash flows expected under other long-term staff welfare payable, it does provide an approximation of the sensitivity of the assumptions shown.

Except as mentioned in Notes (a), (b) and (c) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Taxes payable

	31 December 2017	2016
Income tax payable	**805,710**	712,039
Value-added tax and surcharge payable	**296,542**	7,859
Others	**46,656**	50,988
Total	**1,148,908**	770,886

36 Interests payable

	31 December 2017	2016
Interests payable arising from:		
– Deposits from customers	**9,845,733**	5,206,353
– Deposits from banks and other financial institutions	**2,409,111**	1,892,041
– Debt securities	**126,539**	98,720
– Others	**81,017**	44,302
Total	**12,462,400**	7,241,416

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Debt securities issued

	Note	31 December 2017	2016
Tier two capital debts issued	(a)	**3,995,481**	3,994,352
Interbank deposit certificates issued	(b)	**85,569,270**	26,228,934
Total		**89,564,751**	30,223,286

(a) Tier two capital debts issued

	Note	31 December 2017	2016
Fixed rate tier two capital debts maturing in January 2024	(i)	**1,500,000**	1,500,000
Fixed rate tier two capital debts maturing in January 2026	(ii)	**2,495,481**	2,494,352
Total		**3,995,481**	3,994,352

Notes:

(i) Fixed rate Tier Two capital debts of RMB1,500 million with a term of ten years was issued on 24 January 2014. The coupon rate is 7.00%. The Group has an option to redeem the debts on 28 January 2019 at the nominal amount.

(ii) Fixed rate Tier Two capital debts of RMB2,500 million with a term of ten years was issued on 26 December 2016. The coupon rate is 4.30%. The Group has an option to redeem the debts on 27 December 2021 at the nominal amount.

As of 31 December 2017, the fair value of the total tier two capital debts issued amounts to RMB3,961million (31 December 2016: RMB4,026 million).

(b) Interbank deposit certificates issued

As of December 31,2017, 238 interbank deposit certificates were issued by the Group at a total cost of RMB85,569 million (31 December 2016: RMB26,229 million). The fair value of the interbank deposit certificates mentioned above approximates to RMB85,370 million (31 December 2016: RMB26,134 million).

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Other liabilities

	31 December 2017	2016
Financial liabilities related to precious metals	**3,768,872**	2,754,114
Asset backed security payable	**1,550,730**	332,389
Payment and collection clearance accounts	**813,844**	62,294
Dividend payable	**279,005**	116,832
Deferred income	**4,454**	18,415
Others	**597,621**	369,223
Total	**7,014,526**	3,653,267

39 Movement in components of equity

The reconciliation between the opening and closing balance of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the reporting period are set out below:

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total
Balance at 1 January 2017	6,781,616	—	14,240,317	2,101,109	7,225,282	8,629,144	38,977,468
Total comprehensive income	—	—	(661,986)	—	—	8,935,704	8,273,718
Capital injection by other equity holders	—	9,897,363	—	—	—	—	9,897,363
Appropriation of profits							
– Appropriation to surplus reserve	—	—	—	893,570	—	(893,570)	—
– Appropriation to general reserve	—	—	—	—	2,592,788	(2,592,788)	—
– Appropriation to shareholders	—	—	—	—	—	(1,017,242)	(1,017,242)
Balance at 31 December 2017	6,781,616	9,897,363	13,578,331	2,994,679	9,818,070	13,061,248	56,131,307

39 Movement in components of equity *(continued)*

	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total
Balance at 1 January 2016	5,781,616	9,152,420	1,292,031	4,801,449	4,551,789	25,579,305
Total comprehensive income	—	(549,862)	—	—	8,090,784	7,540,922
Capital injection						
by equity shareholders	1,000,000	5,637,759	—	—	—	6,637,759
Appropriation of profits						
– Appropriation to surplus reserve	—	—	809,078	—	(809,078)	—
– Appropriation to general reserve	—	—	—	2,423,833	(2,423,833)	—
– Appropriation to shareholders	—	—	—	—	(780,518)	(780,518)
Balance at 31 December 2016	6,781,616	14,240,317	2,101,109	7,225,282	8,629,144	38,977,468

40 Share capital

Share capital of the Group as at 31 December 2017 and 2016 represented share capital of the Bank, which is fully paid.

Share capital as at the end of the reporting period are as follows:

	31 December	
	2017	2016
Number of shares authorised, issued and fully paid at par value (in thousands)	**6,781,616**	6,781,616

Note: On 28 December 2016, the Bank issued 1,000,000,000 new H-shares with a par value of RMB1 at an offering price of HKD7.5 per share. The premium arising from the issuance of new shares amounting to RMB5,638 million was recorded in capital reserve.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Preference shares

(a) Preference shares outstanding at the end of the year

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount (thousand shares)	In original currency (thousand)	In RMB (thousand)	Maturity	Conversion condition	Conversion
Overseas preference shares										
USD	27/10/2017	Equity	5.50%	USD 20/Share	74,800	1,496,000	9,944,360	None	Mandatory	No
Total							9,944,360			
Less: Issue fees							(46,997)			
Book value							9,897,363			

(b) Main Clauses

(i) Dividend

Fixed rate for a certain period (5 years) after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and a Fixed Spread of 3.486% per annum, The Fixed Spread will remain unchanged throughout the term of the Preference Shares. The Dividend Rate shall not at any time exceed 27.44% per annum. Dividends will be paid annually.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit (which is the undistributed profit as shown in the financial statements of the parent company prepared in accordance with the PRC GAAP or IFRS, whichever amount is lower), after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements, and the Board having passed a resolution to declare such Dividend in accordance with the Articles of Association. Preference shareholders of the Group are senior to the ordinary shareholders on the right to dividends. The Group may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

(iii) Dividend stopper

If the resolution for the Group to cancel all or part of the dividends to the Preference Shareholders is passed at a Shareholders' general meeting, the Group undertakes that any resolution passed at a Shareholders' general meeting that cancels a Dividend (in whole or in part) on the Offshore Preference Shares will be a Parity Obligation Dividend Cancellation Resolution, and shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the Preference Shareholders in full.

41 Preference shares *(continued)*

(b) Main Clauses *(continued)*

(iv) Order of distribution and liquidation method

The USD Preference Shareholders will rank equally for payment. The Preference Shareholders will be subordinated to holders of all liabilities of the Bank including subordinated liabilities and obligations issued or guaranteed by the Bank that rank, or are expressed to rank, but will be senior to the ordinary shareholders.

(v) Mandatory conversion trigger events

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, obtained the approval of the CBRC but without the need for the consent of the preference shareholders, all or part of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the consent of the preference shareholders, all of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the CBRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

(vi) Redemption

Under the premise of obtaining the approval of the CBRC and conditions of redemption, the Group has right to redeem all or some of overseas preference shares in first call date and subsequent any dividend payment date. The redemption price for each Offshore Preference Share so redeemed shall be the aggregate of an amount equal to its Liquidation Preference plus any declared but unpaid Dividends in respect of the period from (and including) the immediately preceding Dividend Payment Date to (but excluding) the date scheduled for redemption.

USD Preference Shares: the First Redemption Date is five years after issuance, October, 27th 2022.

(vii) Dividend setting mechanism

Non cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Group will not participate the distribution of residual profits with ordinary shareholders.

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Capital reserve

	31 December 2017	2016
Share premium	**14,252,077**	14,252,077
Fair value changes on available-for-sale financial assets	**(679,293)**	(19,407)
Changes on remeasurement of defined benefit liabilities	**(2,124)**	(24)
Others	**8,149**	8,149
Total	**13,578,809**	14,240,795

43 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of each of the reporting period represented statutory surplus reserve fund and other surplus reserve. The statutory surplus reserve fund and other surplus reserve as at 31 December 2017 is RMB2,983 million (2016: RMB2,089 million) and RMB12 million (2016: RMB12 million) respectively. The Bank and its subsidiaries are required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

With effect from 1 July 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Bank is required, in principle, to set aside a general reserve not lower than 1.5% of the balance of its gross risk-bearing assets at each year end.

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Appropriation of profits

(a) In accordance with the resolution of the Bank's Board of directors meeting on 29 March 2018, the proposed profit appropriations for the year ended 31 December 2017 is listed as follows:

- Appropriate statutory surplus reserve amounted to RMB893.57 million, based on 10% of the net profit of the Bank.
- Appropriate general reserve amounted to RMB2,592.79 million.
- Declaration of cash dividend of RMB0.16 per shares before tax and in aggregation amount of RMB1,085.06 million to all shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

(b) In accordance with the resolution of the Bank's annual general meeting on 25 May 2017, the proposed profit appropriations for the year ended 31 December 2016 is listed as follows:

- Appropriate statutory surplus reserve amounted to RMB809.08million, based on 10% of the net profit of the Bank.
- Appropriate general reserve amounted to RMB2,423.83 million.
- Declaration of cash dividend of RMB0.15 per shares before tax and in aggregation amount of RMB1,017.24 million to all shareholders.

45 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include entities set up for wealth management products and beneficial interest transfer plans. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognized as at 31 December 2017 and 2016:

	31 December 2017		31 December 2016	
	Carrying amount	**Maximum exposure**	Carrying amount	Maximum exposure
Debt securities classified as receivables	**343,369,567**	**343,369,567**	281,680,541	281,680,541
Available-for-sale fund investments	**9,093,088**	**9,093,088**	1,801,266	1,801,266
Total	**352,462,655**	**352,462,655**	283,481,807	283,481,807

45 Involvement with unconsolidated structured entities *(continued)*

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services.

As at 31 December 2017, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are RMB23,444.48 million (31 December 2016: RMB16,441.11 million).

In addition, unconsolidated structured entities sponsored by the Group also include asset-backed securities. In March 2015, the Group transferred a portfolio of customer loans with book value of RMB3,122.50 million to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As at 31 December 2017, the balances of these asset-backed securities held by the Group are RMB8.40 million (31 December 2016: RMB74.55 million).

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

(c) Unconsolidated structure entities sponsored by the Group during the year which the Group does not have an interest in as at 31 December 2017 and 2016

The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2017 but matured before 31 December 2017 amounted to RMB11,235.72 million (2016: RMB11,633.89 million).

(d) In 2017, the amount of fee and commission income received from the above mentioned structured entities by the Group amounted to RMB185.94 million (2016: RMB245.07 million).

46 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

Since 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBRC. As at and prior to 31 December 2012, the Group computed its capital adequacy ratios in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP. During the reporting period, the Group has complied with all its externally imposed capital requirements.

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Capital management *(continued)*

The Group's capital adequacy ratios as at 31 December 2017 and 2016 calculated in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements promulgated by the CBRC are as follows:

	31 December	
	2017	2016
Total core tier-one capital		
– Share capital	**6,781,616**	6,781,616
– Qualifying portion of capital reserve	**13,578,809**	14,240,795
– Surplus reserve	**2,994,679**	2,101,109
– General reserve	**9,818,070**	7,225,282
– Retained earnings	**13,160,018**	8,686,628
– Qualifying portions of non-controlling interests	**532,382**	1,057,708
Core tier-one capital deductions		
– Other intangible assets other than land use right	**(182,643)**	(148,166)
Net core tier-one capital	**46,682,931**	39,944,972
Other tier-one capital	**9,968,347**	38,102
Net tier-one capital	**56,651,278**	39,983,074
Tier-two capital		
– Instruments issued and share premium	**4,000,000**	4,000,000
– Surplus provision for loan impairment	**3,969,198**	3,311,404
– Qualifying portions of non-controlling interests	**141,968**	86,576
Tier 2 capital deductions		
– Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	**(200,000)**	—
Net capital base	**64,562,444**	47,381,054
Total risk weighted assets	**553,087,541**	407,922,931
Core tier one capital adequacy ratio	**8.44%**	9.79%
Tier one capital adequacy ratio	**10.24%**	9.80%
Capital adequacy ratio	**11.67%**	11.62%

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	Years ended 31 December	
	2017	2016
Cash and cash equivalents as at 31 December	**12,469,950**	12,229,671
Less: Cash and cash equivalents as at 1 January	**(12,229,671)**	(4,802,961)
Net increase in cash and cash equivalents	**240,279**	7,426,710

(b) Cash and cash equivalents

	31 December	
	2017	2016
Cash on hand	**614,480**	573,486
Deposits with the central bank	**3,274,482**	3,743,647
Deposits with banks and other financial institutions	**2,508,194**	7,912,538
Placements with banks and other financial institutions	**2,500,000**	—
Financial assets held under resale agreements	**3,572,794**	—
Total	**12,469,950**	12,229,671

(c) Reconciliation of liabilities arising from financing activities

	Debt securities (Note 37)	Interests payable of debt securities (Note 36)	Total
At 1 January 2017	30,223,286	98,720	30,322,006
Changes from financing cash flows:			
Proceeds from issue of debt securities	159,475,633	—	159,475,633
Repayment of debts securities issued	—	(358,962)	(358,962)
Interest paid on debts securities issued	(103,090,000)	—	(103,090,000)
Total changes from financing cash flows	56,385,633	(358,962)	56,026,671
Other changes:			
Interest expenses arising from debts securities issued (Note 3)	2,927,984	414,629	3,342,613
At 31 December 2017	89,536,903	154,387	89,691,290

48 Related party relationships and transactions

(a) Related parties of the Group

There is no immediate and ultimate controlling party of the Group during the reporting period. Related parties of the group during the reporting period are disclosed as follows:

Related parties	Relationship with the Group
– Shenyang Longxi Real Estate Development Co., Ltd. ("瀋陽龍璽房地產開發有限公司")	Enterprise under the control of directors
– Jincheng Logistics International Group Co., Ltd. ("錦程國際物流集團股份有限公司")	Enterprise under the control of directors
– Jincheng Logistics International Service Group Co., Ltd. ("錦程國際物流服務有限公司")	Enterprise under the control of directors
– Jincheng International Air Cargo Co., Ltd. ("錦程國際航空貨運服務有限公司")	Enterprise under the control of directors
– Jincheng Logistics International Online Service Group Co., Ltd. ("錦程國際物流在線服務有限公司")	Enterprise under the control of directors
– Jincheng Logistics Network Technology Group Co., Ltd. ("錦程物流網絡技術有限公司")	Enterprise under the control of directors
– Jincheng Logistics Industry Development Group Co., Ltd. ("錦程物流產業發展有限公司")	Enterprise under the control of directors
– Dalian Changxing Island Green-city Development Co., Ltd. ("大連長興島綠城發展有限公司")	Enterprise under the control of directors
– Jinlian Investment Group Co., Ltd. ("錦聯控股集團有限公司")	Enterprise under the control of directors
– Dalian Jinlian Classic Life Property Management Co., Ltd. ("大連錦聯經典生活物業管理有限公司")	Enterprise under the control of directors
– Dalian Jinlian Investment Guarantee Co., Ltd. ("大連錦聯投資擔保有限公司")	Enterprise under the control of directors
– Dalian Zhongshan Jinlian Microcredit Co., Ltd. ("大連中山錦聯小額貸款股份有限公司")	Enterprise under the control of directors
– Dandong Jinlian Microcredit Co., Ltd. ("丹東元寶區錦聯小額貸款有限公司")	Enterprise under the control of directors
– Tianjin Jinlian Financial Leasing Co., Ltd. ("天津錦聯融資租賃有限公司")	Enterprise under the control of directors
– Jinlian Real Estate Group Co., Ltd. ("錦聯地產集團有限公司")	Enterprise under the control of directors
– Jinlian Financial Service (Tianjin) Co., Ltd. (" 錦聯金融服務集團 (天津) 股份有限公司")	Enterprise under the control of directors
– Shenyang Jinlian Environmental Development. Co., Ltd. ("瀋陽錦聯生態科技園發展有限公司")	Enterprise under the control of directors
– Shenyang Jinlian Microcredit Co., Ltd. ("瀋陽市渾南新區錦聯小額貸款有限公司")	Enterprise under the control of directors
– Tianjin Jinlian Development of New Economic Industrial Region Co., Ltd. ("天津錦聯新經濟產業園開發有限公司")	Enterprise under the control of directors
– Shenyang New Economic Industrial Park Development ("瀋陽錦聯新經濟工業園開發有限公司")	Enterprise under the control of directors
– Panjin Jialun Real Estate Co., Ltd. ("盤錦加倫置業有限公司")	Enterprise under the control of directors
– Yingkou Jialun Real Estate Co., Ltd. ("營口加倫置業有限公司")	Enterprise under the control of directors
– Liaoning Deying Petrochemical Co., Ltd. ("遼寧德營石油化工集團有限公司")	Enterprise under the control of supervisors

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Related party relationships and transactions *(continued)*

(a) Related parties of the Group *(continued)*

Related parties	Relationship with the Group
– Liaoning Deying Huijin Technology Development Co., Ltd. (“遼寧德營慧晶科技發展有限公司”)	Enterprise under the control of supervisors
– Beizhen Deying oil Shale Processing Co., Ltd. (“北鎮德營油母葉岩油有限公司”)	Enterprise under the control of supervisors
– Beizhen Deying Tongda vehicle leasing Co., Ltd. (“北鎮德營通達車輛運輸租賃有限公司”)	Enterprise under the control of supervisors
– Jinzhou Asphalt Factory Co., Ltd. (“錦州市瀝青廠”)	Enterprise under the control of supervisors
– Beizhen Huiyin Microcredit Co., Ltd. (“北鎮匯銀小額貸款有限責任公司”)	Enterprise under the control of supervisors
– Jinzhou Jinhua Co., Ltd. (“錦州錦華股份有限公司”)	Enterprise under the control of supervisors

Note: The official names of these related parties are in Chinese. The English translation is for reference only.

(b) Transactions with related parties other than key management personnel

(i) Transactions between the Bank and subsidiaries

The subsidiaries of the Bank are its related parties. The transactions between the Bank and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.

(ii) Transactions between the Group and other related parties:

	Years ended 31 December	
	2017	2016
Transactions during the year:		
Interest income	**128,469**	133,713
Interest expense	**27**	301

	At 31 December	
	2017	2016
Balances at end of the year:		
Loans and advances to customers	**2,053,443**	2,140,128
– Overdue but not Impaired	**—**	472,590
Interests receivable	**11,997**	10,839
Deposits from customers	**2,195**	51,590
Interests payable	**1**	6
Other liabilities	**1,730**	1,730

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Related party relationships and transactions *(continued)*

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Group and key management personnel

	Years ended 31 December	
	2017	2016
Transactions during the year:		
Interest income	**423**	634
Interest expense	**7,825**	3,943

	At 31 December	
	2017	2016
Balances at end of the year:		
Loans and advances to customers	**2,632**	13,203
– Overdue but not Impaired	—	10,000
Interests receivable	**255**	251
Deposits from customers	**283,940**	276,138
Principal guaranteed wealth management products	**1,380**	4,170
Non-principal-guaranteed wealth management products	**5,710**	8,180
Interests payable	**11,795**	4,120

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	Years ended 31 December	
	2017	2016
Short-term staff benefits	**23,302**	20,619
Retirement benefits		
– Basic social pension insurance	**3,347**	3,275

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Related party relationships and transactions *(continued)*

(d) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 383(1) (d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Years ended 31 December	
	2017	2016
Aggregate amount of relevant loans outstanding at the year end	**2,632**	13,203
Maximum aggregate amount of relevant loans outstanding during the reporting period	**13,203**	13,491

49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

49 Segment reporting *(continued)*

Treasury business

This segment covers the Group's treasury operations. The treasury business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The treasury segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, intangible assets and other long-term assets.

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Segment reporting *(continued)*

(a) Segment results, assets and liabilities

	Year ended 31 December 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	5,674,718	(4,483,138)	17,341,344	—	18,532,924
Internal net interest income/(expense)	48,976	5,751,527	(5,800,503)	—	—
Net interest income	5,723,694	1,268,389	11,540,841	—	18,532,924
Net fee and commission income	538,370	135,627	62,677	—	736,674
Net trading losses	—	—	(278,264)	—	(278,264)
Dividend income	—	—	640	—	640
Net gains arising from investment securities	—	—	30,796	—	30,796
Foreign exchange losses	(54,332)	(446)	(184,519)	(340)	(239,637)
Other net operating income	—	—	—	22,859	22,859
Operating income	6,207,732	1,403,570	11,172,171	22,519	18,805,992
Operating expenses	(1,601,011)	(795,359)	(726,812)	(184,956)	(3,308,138)
Operating profit/(losses) before impairment	4,606,721	608,211	10,445,359	(162,437)	15,497,854
Impairment losses on assets	(1,688,908)	(67,049)	(1,685,215)	(3,351)	(3,444,523)
Profit/(losses) before tax	2,917,813	541,162	8,760,144	(165,788)	12,053,331
Segment assets	207,210,217	10,676,142	494,839,182	8,312,264	721,037,805
Deferred tax assets	—	—	—	2,379,845	2,379,845
Total assets	207,210,217	10,676,142	494,839,182	10,692,109	723,417,650
Segment liabilities	198,695,911	170,395,089	285,754,251	8,128,666	662,973,917
Dividend payable	—	—	—	279,005	279,005
Total liabilities	198,695,911	170,395,089	285,754,251	8,407,671	663,252,922
Other segment information					
– Depreciation and amortization	(194,936)	(96,938)	(88,583)	(22,736)	(403,193)
– Capital expenditure	341,189	169,665	155,043	39,793	705,690

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	Year ended 31 December 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	4,074,068	(2,090,265)	13,464,406	—	15,448,209
Internal net interest income/(expense)	681,578	3,086,639	(3,768,217)	—	—
Net interest income	4,755,646	996,374	9,696,189	—	15,448,209
Net fee and commission income	397,145	167,230	244,890	—	809,265
Net trading gains	—	—	49,948	—	49,948
Dividend income	—	—	895	—	895
Net gains arising from investment securities	—	—	10,348	—	10,348
Foreign exchange gains/(losses)	60,399	121	(11,753)	4,957	53,724
Other net operating income	—	—	—	41,460	41,460
Operating income	5,213,190	1,163,725	9,990,517	46,417	16,413,849
Operating expenses	(1,374,285)	(599,406)	(783,854)	(494)	(2,758,039)
Operating profit before impairment	3,838,905	564,319	9,206,663	45,923	13,655,810
Impairment (losses)/profit on assets	(1,201,174)	595	(1,583,849)	(467)	(2,784,895)
Profit before tax	2,637,731	564,914	7,622,814	45,456	10,870,915
Segment assets	119,894,847	9,325,590	400,735,204	7,627,542	537,583,183
Deferred tax assets	—	—	—	1,476,339	1,476,339
Total assets	119,894,847	9,325,590	400,735,204	9,103,881	539,059,522
Segment liabilities	190,106,923	100,056,009	201,562,894	4,322,552	496,048,378
Dividend payable	—	—	—	116,832	116,832
Total liabilities	190,106,923	100,056,009	201,562,894	4,439,384	496,165,210
Other segment information					
– Depreciation and amortization	(190,417)	(83,720)	(107,056)	(65)	(381,258)
– Capital expenditure	509,454	223,989	286,423	174	1,020,040

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Segment reporting *(continued)*

(b) Geographical information

The Group operates principally in Jinzhou, Northeastern China and Northern China.

Non-current assets include property and equipment, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the subsidiaries and the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

– "Jinzhou" refers to the head quarter of the Bank, Jinzhou branch and the five subsidiaries of the Group.

– "Northeastern China" refers to the following areas serviced by branches of the Bank: Shenyang, Dalian, Harbin, Dandong, Fushun, Anshan, Chaoyang, Fuxin, Liaoyang, Hu Ludao, Benxi, Yingkou and the three subsidiaries of the Group.

– "Northern China" refers to the following areas serviced by branches of the Bank: Beijing and Tianjin.

	Operating Income Year ended 31 December	
	2017	2016
Jinzhou	**14,153,945**	11,897,713
Northeastern China	**2,416,986**	1,760,085
Northern China	**2,235,061**	2,756,051
Total	**18,805,992**	16,413,849

	Non-current assets At 31 December	
	2017	2016
Jinzhou	**2,730,457**	2,703,152
Northeastern China	**3,195,954**	2,845,677
Northern China	**695,987**	724,056
Total	**6,622,398**	6,272,885

50 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted. The core to the Group's credit risk management system mainly includes the formulation of credit policies, pre-credit due diligence, customer credit rating, collateral assessment, loan review and approval, loan disbursement management, post-loan management, non-performing loan management, and accountability. The Group adopts the same credit risk management control procedures for on and off-balance credit business.

The responsible department for credit risk management include the Risk and Compliance Department, Post-credit Management Department, Lending-in-progress Management Department, and Unified Credit Management Department. The Risk and Compliance Department is responsible for continuous monitoring, review and evaluation of the adequacy and effectiveness of the Group's credit risk management system, gives advice for the improvement of the Group's credit risk management system and develops and maintains the rating and limit tools. The Group's post-credit management department is responsible for the determination of five-category loan assets. The Group's lending-in-progress management department is in charge of the improvement of the Group's credit review system and operating procedures. The unified credit management department is responsible for formulation of limit management and organize to convene meetings of Credit Approval Management Committee under the Group's headquarters. All of the Group's credit business activities must be carried out according to the guiding opinions on the credit business.

50 Risk management *(continued)*

(a) Credit risk *(continued)*

With respect to the credit risk control and management, the Group specifies the respective duties and operating procedures of each department according to the principle of credit investigation and credit approval separation, management and review separation, and credit limit and review separation. The Group has established the operating mechanism of the Credit Approval Management Committee under the collective review system, as well as a credit due diligence and accountability system.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collaterals or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the reporting period.

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(a) Credit risk *(continued)*

(ii) Financial assets analyzed by credit quality are summarized as follows:

	31 December 2017				
	Loans and advances	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Investments (*)	Others (**)
Impaired					
Individually assessed gross amount	2,246,933	—	—	814,500	16,407
Provision for impairment losses	(1,266,689)	—	—	(329,803)	(16,407)
Sub-total	980,244	—	—	484,697	—
Overdue but not Impaired					
Less than three months (inclusive)	748,914	—	—	—	—
Between three months and six months (inclusive)	40,478	—	—	—	—
More than six months	107,238	—	—	—	—
Gross amount	896,630	—	—	—	—
Provision for impairment losses	(94,310)	—	—	—	—
Sub-total	802,320	—	—	—	—
Neither overdue nor impaired					
Gross amount	211,977,611	12,117,694	3,572,794	428,003,354	11,341,518
Provision for impairment losses	(4,675,228)	—	—	(3,174,063)	(179,902)
Sub-total	207,302,383	12,117,694	3,572,794	424,829,291	11,161,616
Total	209,084,947	12,117,694	3,572,794	425,313,988	11,161,616

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(a) Credit risk *(continued)*

(ii) Financial assets analyzed by credit quality are summarized as follows: *(continued)*

	31 December 2016			
	Loans and advances	Deposits/ Placements with banks and other financial institutions	Investments (*)	Others (**)
Impaired				
Individually assessed gross amount	1,447,918	—	—	13,056
Provision for impairment losses	(965,681)	—	—	(13,056)
Sub-total	482,237	—	—	—
Overdue but not Impaired				
Less than three months (inclusive)	698,924	—	1,450,000	—
Between three months and six months (inclusive)	1,889,235	—	—	—
More than six months	1,068,712	—	—	—
Gross amount	3,656,871	—	1,450,000	—
Provision for impairment losses	(312,706)	—	(39,141)	—
Sub-total	3,344,165	—	1,410,859	—
Neither overdue nor impaired				
Gross amount	121,695,294	8,673,633	348,573,484	8,553,595
Provision for impairment losses	(3,590,935)	—	(2,051,977)	(47,154)
Sub-total	118,104,359	8,673,633	346,521,507	8,506,441
Total	121,930,761	8,673,633	347,932,366	8,506,441

* Investments comprise financial assets at fair value through profit or loss, available-for-sale debt investments, held-to-maturity investments and debt securities classified as receivables.

** Others comprise interests receivable, prepayments for acquisition of property and equipment, other receivables in other assets, financial lease receivables and positive fair value of derivatives.

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(a) Credit risk *(continued)*

(iii) Credit rating

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at the end of each of the reporting period are as follows:

	31 December 2017	2016
Neither overdue nor impaired		
Ratings		
– AAA	**46,579,979**	37,489,628
– AA- to AA+	**2,870,535**	5,269,579
– A- to A+	**270,000**	71,802
– unrated	**9,702,550**	2,331,395
Total	**59,423,064**	45,162,404

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group's market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within acceptable limits and maximize the Group's risk-adjusted income. The Group's risk and compliance department is responsible for monitoring, inspecting and assessing the adequacy and efficiency of the Group's market risk management system. The capital transaction department, interbank department, financial management department and international business department are responsible for the centralized management of interest rate risks and exchange rate risks.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

50 Risk management *(continued)*

(b) Market risk *(continued)*

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position. The interest rate risk is mainly reflected by the Group's exposure to overall revenue and economic value losses as a result of unfavorable changes in key elements such as interest rate and duration structure of various interest-earning assets and interest-bearing liabilities of the Group.

The finance management department is responsible for identifying, measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate sensitivity of the repricing gap and impact on the net interest income and economic value results from the changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on the net interest income and the economic value caused by interest rate volatility.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the major tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the major tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(b) Market risk *(continued)*

(i) The following tables indicate the assets and liabilities as at the end of each of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2017					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	52,117,510	747,977	51,369,533	—	—	—
Deposits with banks and other financial institutions	9,617,694	—	6,365,194	2,598,000	654,500	—
Placements with banks and other financial institutions	2,500,000	—	2,500,000	—	—	—
Financial assets held under resale agreements	3,572,794	—	3,572,794	—	—	—
Loans and advances to customers (Note (i))	209,084,947	—	23,915,955	72,253,031	111,106,057	1,809,904
Investments (Note (ii))	425,372,238	71,900	49,911,210	95,023,941	270,921,510	9,443,677
Financial lease receivables	6,840,341	—	2,977,922	1,676,518	2,185,901	—
Others	14,312,126	14,310,717	1,409	—	—	—
Total assets	723,417,650	15,130,594	140,614,017	171,551,490	384,867,968	11,253,581
Liabilities						
Borrowing from the central bank	307,848	—	—	307,848	—	—
Deposits from banks and other financial institutions	134,537,429	—	30,869,509	54,184,550	46,270,870	3,212,500
Placements from banks and other financial institutions	13,466,127	—	3,546,559	9,919,568	—	—
Financial assets sold under repurchase agreements	39,064,430	—	39,064,430	—	—	—
Deposits from customers	342,264,228	111,982	102,330,196	91,867,159	147,919,590	35,301
Debt securities issued	89,564,751	—	37,974,793	47,594,477	3,995,481	—
Others	44,048,109	20,885,351	11,772,622	11,351,679	38,457	—
Total liabilities	663,252,922	20,997,333	225,558,109	215,225,281	198,224,398	3,247,801
Asset-liability gap	60,164,728	(5,866,739)	(84,944,092)	(43,673,791)	186,643,570	8,005,780

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(b) Market risk *(continued)*

(i) The following tables indicate the assets and liabilities as at the end of each of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier: *(continued)*

	31 December 2016					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	43,666,527	573,486	43,093,041	—	—	—
Deposits with banks and other financial institutions	8,673,633	—	8,464,133	55,000	154,500	—
Loans and advances to customers (Note (i))	121,930,761	—	19,162,528	37,974,369	62,522,367	2,271,497
Investments (Note (ii))	347,990,616	58,250	40,162,403	116,457,560	187,390,603	3,921,800
Financial lease receivables	4,615,491	—	1,075,819	595,989	1,907,346	1,036,337
Others	12,182,494	12,128,636	53,858	—	—	—
Total assets	539,059,522	12,760,372	112,011,782	155,082,918	251,974,816	7,229,634
Liabilities						
Deposits from banks and other financial institutions	131,028,453	—	24,590,953	52,170,000	53,267,500	1,000,000
Placements from banks and other financial institutions	3,866,521	—	3,737,146	129,375	—	—
Financial assets sold under repurchase agreements	35,164,192	—	33,874,192	1,290,000	—	—
Deposits from customers	262,969,211	50,815	92,366,755	55,452,195	115,095,660	3,786
Debt securities issued	30,223,286	—	3,925,514	22,303,420	3,994,352	—
Others	32,913,547	11,793,139	7,931,952	13,188,456	—	—
Total liabilities	496,165,210	11,843,954	166,426,512	144,533,446	172,357,512	1,003,786
Asset-liability gap	42,894,312	916,418	(54,414,730)	10,549,472	79,617,304	6,225,848

Note:

(i) As at 31 December 2017, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB1,754 million (2016: RMB3,871 million).

(ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

50 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit and equity. As at 31 December 2017, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group's net profit to decrease RMB726 million (2016: decrease RMB615 million), and the Group's equity to decrease RMB1,470 million (2016: decrease RMB1,232 million); a decrease in estimated interest rate of 100 basis points will cause the Group's net profit to increase RMB725 million (2016: increase RMB615 million), and the Group's equity to increase RMB1,503 million (2016: increase RMB1,261 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of each of the reporting period apply to non-derivative financial instruments of the Group.

– At the end of each of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months.

– There is a parallel shift in the yield curve with the changes in interest rates.

– There are no other changes to the assets and liabilities portfolio.

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(b) Market risk *(continued)*

Foreign currency risk

The Group's foreign currency risk mainly arises from exchange rate fluctuation on its foreign exchange exposures. The Group manages foreign currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies and monitoring its foreign currency exposures on daily basis. The Group manages exchange rate risk by the following means: strict implementation of the process management of the foreign exchange business; strict management on the exchange business procedure continuous improvement in the internal control system and operational procedures; and continuous improvement in the risk management capability of the foreign exchange business.

The Group's currency exposures as at the end of each of the reporting period are as follows:

	At 31 December 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	51,694,247	421,551	1,712	52,117,510
Deposits with banks and other financial institutions	7,812,720	1,688,247	116,727	9,617,694
Placements with banks and other financial institutions	2,500,000	—	—	2,500,000
Interests receivable	4,194,500	33,597	823	4,228,920
Loans and advances to customers	205,758,970	3,240,758	85,219	209,084,947
Others	445,663,686	197,888	7,005	445,868,579
Total assets	717,624,123	5,582,041	211,486	723,417,650
Liabilities				
Deposits from banks and other financial institutions	134,537,429	—	—	134,537,429
Placements from banks and other financial institutions	2,012,000	11,040,562	413,565	13,466,127
Deposits from customers	333,934,816	7,843,255	486,157	342,264,228
Interests payable	12,174,541	285,007	2,852	12,462,400
Others	160,517,000	5,657	81	160,522,738
Total liabilities	643,175,786	19,174,481	902,655	663,252,922
Net position	74,448,337	(13,592,440)	(691,169)	60,164,728
Off-balance sheet credit commitments	130,544,733	3,033,937	998,269	134,576,939

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(b) Market risk *(continued)*

The Group's currency exposures as at the end of each of the reporting period are as follows: *(continued)*

	At 31 December 2016			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	43,464,090	200,936	1,501	43,666,527
Deposits with banks and other financial institutions	1,727,832	240,989	6,704,812	8,673,633
Interests receivable	3,535,402	18,003	2,043	3,555,448
Loans and advances to customers	116,033,807	5,655,893	241,061	121,930,761
Others	361,226,149	—	7,004	361,233,153
Total assets	525,987,280	6,115,821	6,956,421	539,059,522
Liabilities				
Deposits from banks and other financial institutions	131,028,453	—	—	131,028,453
Placements from banks and other financial institutions	—	3,604,396	262,125	3,866,521
Deposits from customers	259,810,536	3,139,135	19,540	262,969,211
Interests payable	7,213,804	27,417	195	7,241,416
Others	90,996,959	60,269	2,381	91,059,609
Total liabilities	489,049,752	6,831,217	284,241	496,165,210
Net position	36,937,528	(715,396)	6,672,180	42,894,312
Off-balance sheet credit commitments	101,775,465	7,244,064	1,126,444	110,145,973

50 Risk management *(continued)*

(b) Market risk *(continued)*

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2017, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB2.06 million (31 December 2016: increase by RMB8.38 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB2.06 million (31 December 2016: decrease by RMB8.38 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

– The foreign exchange sensitivity is the gain and loss recognized as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;

– The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;

– The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

50 Risk management *(continued)*

(c) Liquidity risk

Liquidity risk represents the risk that the commercial bank is unable to raise sufficient funds at reasonable costs in a timely manner to satisfy due liabilities, to perform other payment obligations and to satisfy other funds requirements of normal businesses. In extreme cases, liquidity insufficiency can lead to settlement risks of commercial banks. Significant growth in the demand for credit facilities, substantial performance of loan commitments, unexpected increase in non-performing loans, sharp decrease in deposit level and financing difficulty in the currency market may affect the Group's liquidity. Meanwhile, adjustment in financial policies, dramatic changes in interest rates in the market, the Group's own asset and liability structure and liquidity management capability are also important factors which affect the Group's liquidity.

The Group has established an effective liquidity management and decision-making system, and formulated asset and liability management strategies and liquidity management policy which are in line with the Group's actual conditions. Being responsible for bank-wide liquidity management, the asset and liability management committee establishes the liquidity management plan according to the requirements and regulatory indicators for asset and liability management at the beginning of each year and monitors and adjusts this plan on a quarterly basis, with an aim to ensure the effective management of the Group's asset and liability structure. The Group's financial management department is responsible for the analysis and monitoring of the Group's daily liquidity, while the financial management department, the capital transactions department, the international business department and the interbank department manage the daily liquidity risk.

The Group sticks to positive and active liquidity management policies, and actively improve the Group's active liability capability and constantly enhance the Group's financing capability in the interbank market, so that the bond investment business can not only become an important source of profit for the Group, but also become an important reserve for the Group to maintain good liquidity. The Group also effectively forewarns liquidity risks by carrying out tailored liquidity pressure tests.

In response to changes in macroeconomic situation, monetary policy and regulatory requirements, the Group adheres to a steady and prudent liquidity risk management strategy and constantly improves the level of liquidity risk management. The Group actively adjusts the maturity structure of the Group's assets and liabilities, diversifies and improves the Group's risk management approaches, considers liquidity risk management indicators, manages daily fund position, as well as conducts monthly pressure tests on liquidity risk, maintaining liquidity at a reasonable level and preventing liquidity risks.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of each of the reporting period:

	31 December 2017							
	Indefinite Note(i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	48,228,548	3,888,962	—	—	—	—	—	52,117,510
Deposit with banks and other financial institutions	—	2,063,194	495,000	3,807,000	2,598,000	654,500	—	9,617,694
Placements with banks and other financial institutions	—	—	2,500,000	—	—	—	—	2,500,000
Financial assets held under resale agreements	—	—	3,572,794	—	—	—	—	3,572,794
Loans and advances to customers (ii)	1,629,801	123,883	4,382,466	17,088,310	72,016,790	111,635,692	2,208,005	209,084,947
Investments (iii)	556,597	—	14,236,219	27,161,136	94,996,281	278,978,328	9,443,677	425,372,238
Financial lease receivables	—	—	176,563	632,123	2,259,399	3,772,256	—	6,840,341
Others	10,182,043	—	666,469	1,038,953	1,942,505	482,033	123	14,312,126
Total assets	60,596,989	6,076,039	26,029,511	49,727,522	173,812,975	395,522,809	11,651,805	723,417,650
Liabilities								
Borrowing from the central bank	—	—	—	—	307,848	—	—	307,848
Deposits from banks and other financial institutions	—	289,509	5,830,000	24,750,000	54,184,550	46,270,870	3,212,500	134,537,429
Placements from banks and other financial institutions	—	—	1,420,888	2,125,671	9,919,568	—	—	13,466,127
Financial assets sold under repurchase agreements	—	—	33,775,615	5,288,815	—	—	—	39,064,430
Deposit from customers	—	66,468,598	13,179,122	22,794,458	91,867,159	147,919,590	35,301	342,264,228
Debt securities issued	—	—	9,011,430	22,983,363	47,594,477	9,975,481	—	89,564,751
Others	—	8,175,817	5,914,642	8,487,457	15,213,921	6,203,034	53,238	44,048,109
Total liabilities	—	74,933,924	69,131,697	86,429,764	219,087,523	210,368,975	3,301,039	663,252,922
Long/(short) position	60,596,989	(68,857,885)	(43,102,186)	(36,702,242)	(45,274,548)	185,153,834	8,350,766	60,164,728

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of each of the reporting period: *(continued)*

	31 December 2016							
	Indefinite Note(i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	39,349,394	4,317,133	—	—	—	—	—	43,666,527
Deposit with banks and other financial institutions	—	866,800	723,596	6,873,737	55,000	154,500	—	8,673,633
Loans and advances to customers (ii)	3,693,801	176,869	3,808,079	11,054,126	38,289,124	62,740,046	2,168,716	121,930,761
Investments (iii)	58,250	1,926,545	5,506,587	26,540,708	87,264,452	216,482,034	10,212,040	347,990,616
Financial lease receivables	—	—	13,696	292,213	839,935	3,377,459	92,188	4,615,491
Others	8,658,006	134	538,873	854,750	1,752,228	378,492	11	12,182,494
Total assets	51,759,451	7,287,481	10,590,831	45,615,534	128,200,739	283,132,531	12,472,955	539,059,522
Liabilities								
Deposits from banks and other financial institutions	—	220,953	5,730,000	18,640,000	52,170,000	53,267,500	1,000,000	131,028,453
Placements from banks and other financial institutions	—	—	1,726,994	2,010,152	129,375	—	—	3,866,521
Financial assets sold under repurchase agreements	—	—	31,932,192	1,942,000	1,290,000	—	—	35,164,192
Deposit from customers	—	65,377,256	11,151,995	15,888,319	55,452,195	115,095,660	3,786	262,969,211
Debt securities issued	—	—	—	3,925,514	22,303,420	3,994,352	—	30,223,286
Others	—	4,427,104	4,357,670	5,644,031	15,144,415	3,280,226	60,101	32,913,547
Total liabilities	—	70,025,313	54,898,851	48,050,016	146,489,405	175,637,738	1,063,887	496,165,210
Long/(short) position	51,759,451	(62,737,832)	(44,308,020)	(2,434,482)	(18,288,666)	107,494,793	11,409,068	42,894,312

Notes:

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments is listed in the category of indefinite.

(ii) Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand.

(iii) Investments with no impairment but overdue within one month are classified into the category of repayable on demand.

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities, loan commitments and credit card commitments at the end of each of the reporting period:

	31 December 2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	307,848	310,199	—	—	—	310,199	—	—
Deposits from banks and other financial institutions	134,537,429	149,701,957	289,632	6,039,092	25,588,358	56,514,871	57,110,486	4,159,518
Placements from banks and other financial institutions	13,466,127	13,794,289	—	1,441,843	2,162,743	10,189,703	—	—
Financial assets sold under repurchase agreements	39,064,430	39,193,799	—	33,858,626	5,335,173	—	—	—
Deposits from customers	342,264,228	350,883,691	66,468,598	13,564,821	23,452,327	94,745,915	152,615,652	36,378
Debt securities issued	89,564,751	91,830,000	—	9,135,000	—	72,287,500	10,407,500	—
Other financial liabilities	30,862,727	31,648,460	8,163,434	4,660,295	6,830,657	11,797,639	88,566	107,869
Total non-derivative financial liabilities	650,067,540	677,362,395	74,921,664	68,699,677	63,369,258	245,845,827	220,222,204	4,303,765
Loan commitments and credit card commitments	—	4,799,398	4,255,368	254,500	57,890	207,210	24,430	—

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities, loan commitments and credit card commitments at the end of each of the reporting period: *(continued)*

	31 December 2016							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	131,028,453	145,695,834	221,106	5,990,721	18,982,071	55,186,339	64,067,694	1,247,903
Placements from banks and other financial institutions	3,866,521	3,879,651	—	1,729,720	2,018,531	131,400	—	—
Financial assets sold under repurchase agreements	35,164,192	35,337,880	—	31,996,846	1,959,091	1,381,943	—	—
Deposits from customers	262,969,211	268,458,964	65,377,256	11,526,399	16,319,964	57,120,294	118,111,166	3,885
Debt securities issued	30,223,286	31,762,500	—	105,000	3,960,000	23,057,500	4,640,000	—
Other financial liabilities	25,664,193	26,388,057	4,424,153	3,467,273	4,781,479	13,523,576	51,985	139,591
Total non-derivative financial liabilities	488,915,856	511,522,886	70,022,515	54,815,959	48,021,136	150,401,052	186,870,845	1,391,379
Loan commitments and credit card commitments	—	4,204,535	3,423,512	33,950	635,950	109,123	2,000	—

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

50 Risk management *(continued)*

(d) Operational risk

Operational risk refers to, in the process of operation and management, the risk resulting from imperfect governance structure of the legal persons, unsound internal control system, deviation of operational procedures and standards, violation by business personnel of procedural requirements and the failure by the internal control system to effectively identify, warn and prevent non-compliance and improper operation. The Group's risk and compliance department is responsible for conducting continuous monitoring, inspection and assessment of the adequacy and effectiveness of the Group's operational risk management system, putting forward improvement proposals and carrying out risk review of various risk management and internal control systems.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

51 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts is determined by the difference between the present value of the forward price and the contractual price at the end of the reporting period, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

51 Fair value *(continued)*

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and financial assets at fair value through profit or loss are stated at fair value. The carrying amount and fair value of held-to-maturity investments and debt securities classified as receivables are disclosed in Notes 22 and 23.

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, financial liabilities designated at fair value through profit or loss, deposits from customers and subordinated debts issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The book value and fair value of debt securities issued is presented in Note 37. The carrying amounts of other financial liabilities approximate their fair value.

(Expressed in thousands of Renminbi, unless otherwise stated)

51 Fair value *(continued)*

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. These three types of inputs have created the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
– debt instruments	—	1,005,451	—	1,005,451
– precious metals	—	13,651	—	13,651
Financial assets designated at fair value through profit or loss	—	1,873,700	20,634,006	22,507,706
Available-for-sale financial assets				
– debt instruments	—	41,009,388	9,629,561	50,638,949
Positive fair value of derivatives				
– foreign currency derivatives	—	1,409	—	1,409
Total	—	43,903,599	30,263,567	74,167,166
Liabilities				
Financial liabilities designated at fair value through profit or loss	—	—	22,439,776	22,439,776
Negative fair value of derivatives				
– foreign currency derivatives	—	722,982	—	722,982
Total	—	722,982	22,439,776	23,162,758

(Expressed in thousands of Renminbi, unless otherwise stated)

51 Fair value *(continued)*

(c) Fair value hierarchy *(continued)*

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
– debt instruments	—	61,715	—	61,715
Financial assets designated at fair value through profit or loss	—	1,920,338	19,169,083	21,089,421
Available-for-sale financial assets				
– debt instruments	—	32,783,584	1,881,078	34,664,662
Positive fair value of derivatives				
– foreign currency derivatives	—	53,858	—	53,858
Total	—	34,819,495	21,050,161	55,869,656
Liabilities				
Financial liabilities designated at fair value through profit or loss	—	—	20,986,772	20,986,772
Negative fair value of derivatives				
– foreign currency derivatives	—	7,938	—	7,938
Total	—	7,938	20,986,772	20,994,710

During the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

(Expressed in thousands of Renminbi, unless otherwise stated)

51 Fair value *(continued)*

(c) Fair value hierarchy *(continued)*

The movement during the years ended 31 December 2017 and 2016 in the balance of Level 3 fair value measurements are as follows:

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss	Total assets	Financial liabilities designated at fair value through profit or loss	Total liabilities
1 January 2017	**1,881,078**	**19,169,083**	**21,050,161**	**(20,986,772)**	**(20,986,772)**
Total gains or losses					
– in profit or loss for the year	—	**39,864**	**39,864**	**(36,314)**	**(36,314)**
– in other comprehensive income	**9,999**	—	**9,999**	—	—
Purchases	**9,801,163**	**40,067,469**	**49,868,632**	**(41,959,700)**	**(41,959,700)**
Settlements	**(2,062,679)**	**(38,642,410)**	**(40,705,089)**	**40,543,010**	**40,543,010**
31 December 2017	**9,629,561**	**20,634,006**	**30,263,567**	**(22,439,776)**	**(22,439,776)**
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the period	—	**39,864**	**39,864**	**(36,314)**	**(36,314)**

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss	Total assets	Financial liabilities designated at fair value through profit or loss	Total liabilities
1 January 2016	74,576	14,195,643	14,270,219	(15,426,941)	(15,426,941)
Total gains or losses					
– in profit or loss for the year:	—	160,840	160,840	(147,231)	(147,231)
– in other comprehensive income	1,806,502	—	1,806,502	—	—
Purchases	—	32,364,835	32,364,835	(34,265,435)	(34,265,435)
Settlements	—	(27,552,235)	(27,552,235)	28,852,835	28,852,835
31 December 2016	1,881,078	19,169,083	21,050,161	(20,986,772)	(20,986,772)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the period	—	160,840	160,840	(147,231)	(147,231)

During the years ended 31 December 2017 and 2016, there were no significant transfers into or out of Level 3.

(Expressed in thousands of Renminbi, unless otherwise stated)

52 Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	At 31 December	
	2017	2016
Entrusted loans	**250,294,591**	230,779,868
Entrusted funds	**250,294,591**	230,779,868

53 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	At 31 December	
	2017	2016
Loan commitments		
– Original contractual maturity within one year	**203,848**	506,456
– Original contractual maturity more than one year (inclusive)	**3,666,368**	3,030,740
Credit card commitments	**929,182**	667,338
Sub-total	**4,799,398**	4,204,534
Acceptances	**105,422,308**	78,222,618
Letters of credit	**21,070,234**	18,272,197
Letters of guarantees	**3,284,999**	9,446,624
Total	**134,576,939**	110,145,973

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Commitments and contingent liabilities *(continued)*

(b) Operating lease commitments

As at the end of each of the reporting period, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	At 31 December	
	2017	2016
Within one year (inclusive)	**106,568**	71,125
After one year but within two years (inclusive)	**95,314**	94,521
After two years but within three years (inclusive)	**90,771**	93,888
After three years but within five years (inclusive)	**78,608**	144,832
After five years	**68,659**	104,186
Total	**439,920**	508,552

(c) Capital commitments

As at the end of each of the reporting period, the Group's authorized capital commitments are as follows:

	31 December	
	2017	2016
Contracted but not paid for		
– Purchase of property and equipment	**901,773**	167,127
Authorized but not contracted		
– Purchase of property and equipment	**120,797**	448,000
Total	**1,022,570**	615,127

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Commitments and contingent liabilities *(continued)*

(d) Outstanding litigations and disputes

As at 31 December 2017, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB103.73 million (2016: RMB95.07 million).

The Bank was also involved in a shareholding dispute litigation with a former shareholder since July 2012. On 31 August 2017, the former shareholder applied to the Court for the claims and requested the Court to (i) order it entitled to purchase 9.16% of the Bank's total domestic shares, which was a total of 4,402,233,866 shares, at an exercise price of RMB1.00 per share with a 12-year term, and (ii) together with 2 other defendants jointly indemnify it with an amount of RMB121.35 million. If the court judgment is unfavorable to the Bank and, in such event, shareholders' shareholdings in the Bank may be diluted, which would represent approximately 5.61% of the Bank's total share capital as of 31 December 2017 after the hypothetical issue and full exercise of the warrants, rendering the former shareholder become the Bank's single largest shareholder. The Bank's directors and its legal advisor in this litigation are of the view that, based on the evidence currently available, the likelihood of the Bank losing this shareholding dispute litigation is low.

No provisions have been made by the Group for the estimated losses of such litigations and disputes at the end of the reporting period after consulting the opinions of the Group's internal and external legal counsels.

54 Company-level statement of financial position

	31 December	
	2016	2015
Assets		
Cash and deposits with the central bank	**51,212,177**	43,055,089
Deposits with banks and other financial institutions	**8,292,327**	7,788,400
Placements with banks and other financial institutions	**2,500,000**	—
Financial assets at fair value through profit or loss	**23,526,808**	21,151,136
Positive fair value of derivatives	**1,409**	53,858
Financial assets held under resale agreements	**3,572,794**	—
Interests receivable	**4,170,218**	3,532,993
Loans and advances to customers	**204,951,606**	118,592,029
Available-for-sale financial assets	**50,697,199**	34,722,912
Held-to-maturity investments	**7,778,664**	10,436,027
Debt securities classified as receivables	**343,369,567**	281,680,541
Investments in subsidiaries	**1,879,530**	1,879,530
Property and equipment	**6,214,562**	5,922,541
Deferred tax assets	**2,308,982**	1,443,426
Other assets	**1,097,154**	930,445
Total assets	**711,572,997**	531,188,927

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Company-level statement of financial position *(continued)*

	31 December 2016	2015
Liabilities and equity		
Liabilities		
Borrowing from the central bank	**277,848**	—
Deposits from banks and other financial institutions	**133,622,087**	131,919,142
Placements from banks and other financial institutions	**13,466,127**	3,866,521
Financial liabilities at fair value through profit or loss	**22,439,776**	20,986,772
Negative fair value of derivatives	**722,982**	7,938
Financial assets sold under repurchase agreements	**39,064,430**	35,164,192
Deposits from customers	**335,889,319**	258,395,120
Accrued staff costs	**257,232**	250,653
Taxes payable	**1,106,276**	725,872
Interests payable	**12,271,790**	7,152,318
Debts securities issued	**89,564,751**	30,223,286
Other liabilities	**6,759,072**	3,519,645
Total liabilities	**655,441,690**	492,211,459
Equity		
Share capital	**6,781,616**	6,781,616
Other equity instruments		
Inlcuding: Preference shares	**9,897,363**	—
Capital reserve	**13,578,331**	14,240,317
Surplus reserve	**2,994,679**	2,101,109
General reserve	**9,818,070**	7,225,282
Retained earnings	**13,061,248**	8,629,144
Total equity	**56,131,307**	38,977,468
Total liabilities and equity	**711,572,997**	531,188,927

Approved and authorised for issue by the board of directors on 29 March 2018.

Zhang Wei	**Wang Xiaoyu**	**Company chop**
Chairman	*Executive Director/ Head of Finance*	

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretation which are not yet effective for the year ended December 31, 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

		Effective for accounting period beginning on or after
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 1 and IAS 28	Annual Improvements to IFRSs 2015–2017 Cycle –various standards	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

Further information about those changes that are expected to affect the Group is as follows:

(1) IFRS 9 "Financial Instruments"

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

55 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017 *(continued)*

(1) IFRS 9 "Financial Instruments" *(continued)*

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVOCI):

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognised in profit or loss. Gains and losses on that security will be recognised in other comprehensive income without recycling.

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

– Discounted bills and forfeiting in Loans and advances to customers under IAS 39 will be measured at FVOCI under IFRS 9.

– Tier-two capital bonds in Held-to-maturity investment securities under IAS 39 will be measured at FVTPL under IFRS 9.

– The equity investment securities that are classified as available-for-sale under IAS 39 will be designated at FVOCI under IFRS 9.

– Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

– Investment securities that are classified as loans and receivables and measured at amortised cost under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). Based on its assessment, the Group does not believe that the requirements will have a material impact on its financial liabilities.

55 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017 *(continued)*

(1) IFRS 9 "Financial Instruments" *(continued)*

(ii) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

Based on a preliminary assessment, if the Group were to adopt IFRS 9 at 31 December 2017,the Group's total equity would decrease by around 2% as a result of the new requirements on classification and measurement, and impairment as compared with that recognised under IAS39.

(2) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, Leases, which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability.

Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

The Group is currently assessing the impact of the standard on its financial position and performance.

56 Non-adjusting events after the reporting period

(a) The profit appropriation of the Bank was proposed in accordance with the resolution of the board of directors meeting as disclosed in Note 44(a).

(b) On March 26, 2018, the Bank issued Fixed rate Tier Two debts of 4,000 million with term of ten years, the coupon rate is 4.90%. The Bank has an option to redeem the debts on March 27, 2023 at the nominal amount.

57 Comparative figures

Certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2017.

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

1 Liquidity coverage ratio and leverage ratio (%)

(a) Liquidity coverage ratio

	Asat 31 December 2017	Average for the year ended 31 December 2017
Liquidity coverage ratio (RMB and foreign currency)	**163.13%**	**235.91%**

	As at 31 December 2016	Average for the year ended 31 December 2016
Liquidity coverage ratio (RMB and foreign currency)	308.69%	273.05%

(b) Leverage ratio

	As at 31 December 2017	As at 31 December 2016
Leverage ratio	**6.82%**	**6.46%**

Pursuant to the Leverage ratio Management of Commercial Banks issued by the CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Currency concentrations

	At 31 December 2017 US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	5,582,041	25,987	185,499	5,793,527
Spot liabilities	(19,174,481)	(773)	(901,882)	(20,077,136)
Net long position	(13,592,440)	25,214	(716,383)	(14,283,609)
Net structural position	—	—	—	—

	At 31 December 2016 US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	6,115,821	6,796,468	159,953	13,072,242
Spot liabilities	(6,831,217)	(130,586)	(153,655)	(7,115,458)
Net long position	(715,396)	6,665,882	6,298	5,956,784
Net structural position	—	—	—	—

3 International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with the central bank, amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

(Expressed in thousands of Renminbi, unless otherwise stated)

3 International claims *(continued)*

	As at 31 December 2017		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	**1,530,720**	**3,360,397**	**4,891,117**
- of which attributed to Hong Kong	**214,724**	—	**214,724**
North and South America	**32,458**	—	**32,458**
Europe	**858,241**	—	**858,241**
	2,421,419	**3,360,397**	**5,781,816**

	As at 31 December 2016		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	7,010,606	5,896,954	12,907,560
- of which attributed to Hong Kong	6,680,232	—	6,680,232
North and South America	119,974	—	119,974
Europe	12,473	—	12,473
	7,143,053	5,896,954	13,040,007

4 Loans and advances overdue for more than 90 days by geographical segments

	31 December	
	2017	2016
Jinzhou	**804,166**	1,317,454
Northeastern China	**1,076,420**	2,761,652
Northern China	**341,509**	323,947
Total	**2,222,095**	4,403,053

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Gross amount of loans and advances overdue for more than 90 days

	31 December	
	2017	2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	**213,726**	2,034,531
– between 6 months and 1 year (inclusive)	**354,019**	1,071,518
– between 1 year and 3 years (inclusive)	**1,237,769**	936,432
– over 3 years	**416,581**	360,572
Total	**2,222,095**	4,403,053
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	**0.10%**	1.60%
– between 6 months and 1 year (inclusive)	**0.16%**	0.85%
– between 1 year and 3 years (inclusive)	**0.58%**	0.74%
– over 3 years	**0.19%**	0.29%
Total	**1.03%**	3.48%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

At 31 December 2017, the gross amount of overdue loans and advances overdue more than 90 days of the Group were RMB2,222 million (2016: RMB4,403 million). The covered portion of these overdue loans and advances were RMB714million (2016: RMB1,607 million). The fair value of collateral held against these loans and advances amounted to RMB746 million (2016: RMB1,971 million).

6 Non-bank mainland China exposure

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at 31 December 2017 and 2016, substantial amounts of the Bank's exposures arose from businesses with mainland China entities or individuals.

锦州银行
BANK OF JINZHOU

Address：No. 68 Keji Road, Jinzhou City, Liaoning, China (121013)
Tel : +86-416-3220002
http://www.jinzhoubank.com