



盛京銀行  
SHENGJING BANK

Shengjing Bank Co., Ltd.\*

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

Stock Code: 02066

2017 Annual Report



北京

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

# COMPANY INFORMATION

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<b>Legal Name in Chinese</b>	盛京銀行股份有限公司
<b>Abbreviation in Chinese</b>	盛京銀行
<b>Legal Name in English</b>	Shengjing Bank Co., Ltd.
<b>Abbreviation in English</b>	SHENGJING BANK
<b>Legal Representative</b>	ZHANG Qiyang
<b>Authorised Representatives</b>	ZHANG Qiyang and ZHOU Zhi
<b>Secretary to the Board of Directors</b>	ZHOU Zhi
<b>Joint Company Secretaries</b>	ZHOU Zhi and KWONG Yin Ping Yvonne
<b>Registered and Business Address</b>	No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC
<b>Contact Number</b>	86-24-22535633
<b>Website</b>	<a href="http://www.shengjingbank.com.cn">www.shengjingbank.com.cn</a>
<b>Principal Place of Business in Hong Kong</b>	Units 08–09, 18/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
<b>Website of the Hong Kong Stock Exchange on which the H Share Annual Report is Published</b>	<a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
<b>Place of Maintenance of the Annual Report</b>	Office of the Board of Directors of Shengjing Bank
<b>Stock Name</b>	Shengjing Bank

## COMPANY INFORMATION (CONTINUED)

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<b>Stock Code</b>	02066
<b>H Share Registrar and its Business Address</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
<b>Legal Advisor as to PRC Laws and its Business Address</b>	Tian Yuan Law Firm 10/F, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing, the PRC
<b>Legal Advisor as to Hong Kong Law and its Business Address</b>	Freshfields Bruckhaus Deringer 55th Floor, One Island East, Taikoo Place Quarry Bay, Hong Kong
<b>Auditor and its Business Address</b>	KPMG 8th Floor, Prince’s Building 10 Chater Road Hong Kong

# FINANCIAL HIGHLIGHTS

(Expressed in thousands of Renminbi, unless otherwise stated)	2017	2016	Year-on-year change between 2017 and 2016	2015	2014	2013
			Rate of change (%)			
<b>Operating Results</b>						
Interest income	42,277,528	36,055,533	17.3	31,479,529	25,415,004	18,038,013
Interest expense	(30,201,911)	(22,837,867)	32.2	(19,530,998)	(15,513,832)	(10,193,830)
Net interest income	12,075,617	13,217,666	(8.6)	11,948,531	9,901,172	7,844,183
Net fee and commission income	1,612,758	1,913,907	(15.7)	1,204,189	1,368,431	770,141
Net trading gains/(losses), net gains/(losses) arising from investments, Net foreign exchange gains/(losses), other operating income	(438,692)	982,303	(144.7)	1,031,436	(64,840)	291,470
Operating income	13,249,683	16,113,876	(17.8)	14,184,156	11,204,763	8,905,794
Operating expenses	(3,617,442)	(3,730,598)	(3.0)	(4,102,162)	(3,211,887)	(2,445,727)
Impairment losses on assets	(1,403,284)	(3,675,411)	(61.8)	(1,955,377)	(934,151)	(171,860)
Operating profit	8,228,957	8,707,867	(5.5)	8,126,617	7,058,725	6,288,207
Share of profits of associates	–	–	–	–	2,338	19,719
Profit before taxation	8,228,957	8,707,867	(5.5)	8,126,617	7,061,063	6,307,926
Income tax expense	(654,818)	(1,829,575)	(64.2)	(1,902,790)	(1,637,225)	(1,419,125)
Net profit	7,574,139	6,878,292	10.1	6,223,827	5,423,838	4,888,801
Net profit attributable to equity shareholders of the Bank	<u>7,580,055</u>	<u>6,864,520</u>	<u>10.4</u>	<u>6,211,334</u>	<u>5,404,933</u>	<u>4,865,531</u>

## FINANCIAL HIGHLIGHTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	2017	2016	Year-on-year change between 2017 and 2016	2015	2014	2013
			<b>Change</b>			
<b>Calculated on a per share basis</b>						
<i>(RMB)</i>						
Basic and diluted earnings per share	1.31	1.18	0.13	1.07	1.25	1.31
Dividend per share	0.18	0.25	(0.07)	0.28	0.275	0.10
			<b>Rate of change</b>			
			<i>(%)</i>			
<b>Major indicators of assets/ liabilities</b>						
Total assets	1,030,617,431	905,482,647	13.8	701,628,500	503,370,514	355,432,167
Of which: net loans and advances to customers	271,782,787	228,880,732	18.7	191,531,735	155,946,864	131,557,892
Total liabilities	978,361,775	859,108,021	13.9	659,913,547	467,237,029	333,961,729
Of which: deposits from customers	473,580,808	415,246,159	14.0	402,379,086	315,943,789	262,912,728
Share capital	5,796,680	5,796,680	–	5,796,680	5,646,005	4,096,005
Equity attributable to equity shareholders of the Bank	51,681,375	45,794,429	12.9	41,268,528	35,699,553	21,055,411
Total equity	52,255,656	46,374,626	12.7	41,714,953	36,133,485	21,470,438

## FINANCIAL HIGHLIGHTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	2017	2016	Year-on-year change between 2017 and 2016	2015	2014	2013
			<b>Change</b>			
<b>Profitability Indicators (%)</b>						
Return on average total assets <sup>(1)</sup>	0.78	0.86	(0.08)	1.03	1.26	1.46
Return on average equity <sup>(2)</sup>	15.36	15.62	(0.26)	15.99	18.83	27.06
Net interest spread <sup>(3)</sup>	1.36	1.65	(0.29)	2.00	2.07	2.17
Net interest margin <sup>(4)</sup>	1.50	1.75	(0.25)	2.14	2.32	2.39
Net fee and commission income to operating income	12.17	11.88	0.29	8.49	12.21	8.65
Cost-to-income ratio <sup>(5)</sup>	26.22	19.31	6.91	19.04	19.06	19.01
			<b>Change</b>			
<b>Asset quality indicators (%)</b>						
Non-performing loan ratio <sup>(6)</sup>	1.49	1.74	(0.25)	0.42	0.44	0.46
Allowance to non-performing loans <sup>(7)</sup>	186.02	159.17	26.85	482.38	387.42	306.12
Allowance to total loans <sup>(8)</sup>	2.77	2.78	(0.01)	2.01	1.70	1.41
			<b>Change</b>			
<b>Capital adequacy indicators (%)</b>						
Core Tier-one capital adequacy ratio <sup>(9)</sup>	9.04	9.10	(0.06)	9.42	11.04	10.07
Tier-one capital adequacy ratio <sup>(9)</sup>	9.04	9.10	(0.06)	9.42	11.04	10.07
Capital adequacy ratio <sup>(9)</sup>	12.85	11.99	0.86	13.03	12.65	11.17
Total equity to total assets ratio	5.07	5.12	(0.05)	5.95	7.18	6.04
			<b>Change</b>			
<b>Other indicators (%)</b>						
Loan-to-deposit ratio <sup>(10)</sup>	59.02	56.69	2.33	48.58	50.21	50.75



## FINANCIAL HIGHLIGHTS (CONTINUED)

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*Note:*

- (1) Calculated by dividing the net profit by the average of total assets at the beginning and at the end of the period.
- (2) Representing the net profit during the period as a percentage of the average balance of total equity at the beginning and the end of the period.
- (3) Calculated by deducting the average interest rate of interest-bearing liabilities from the average return rate of interest-earning assets.
- (4) Calculated by dividing net interest income by the average interest-earning assets.
- (5) Calculated by dividing operating expenses (less business tax and surcharges) by operating income.
- (6) Calculated by dividing the balance of non-performing loans by total balance of loans and advances to customers.
- (7) Calculated by dividing the balance of provision for impairment on loans by the balance of non-performing loans.
- (8) Calculated by dividing the balance of the provision for impairment on loans by the total balance of loans and advances to customers.
- (9) Core Tier-one capital adequacy ratio, core capital adequacy ratio and capital adequacy ratio were calculated in accordance with the latest guidance promulgated by the CBRC (effective from 1 January 2013).
- (10) The loan-to-deposit ratio is calculated by dividing the total balance of loans and advances to customers by total deposits from customers.

# CHAIRMAN'S STATEMENT

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The banking industry experienced profound changes in the business environment in 2017. While the economic growth continued to slow down, the supply-side reform was further deepened, the financial regulatory requirements was tightened in all respects and the competition among peers become increasingly fierce, we adhered to the overall approach of achieving progress while maintaining stability, planning advance, formulating forward-looking strategies and implementing policies from an integrated perspective. We also proposed a strategic goal of developing ourselves into a comprehensive, diversified and quality joint-stock commercial bank with a leading position among banks of the same type, we established a business network of “One Headquarters and Two Centers” and made intensive efforts in carrying out strategic measures for the “light assets and light capital” business. As we unswervingly promoted structural adjustment and transformation, there was a trend showing that in overall the Bank made progress steadily with a positive and persistent growth momentum. As at the end of 2017, the total assets of the Bank exceeded RMB1 trillion, and its net profit maintained a double-digit growth on a year-on-year basis. The non-performing loan ratio decreased as compared with that at the beginning of the year and the assets/liabilities structure was further optimised. These reflect that we have achieved an initial success in our transformation and we have also reached a new level for our overall competitiveness.

It was an uneasy path to success. The success was attributable to the guidance and assistance from the government and regulatory authorities at all levels, and the trust and support from both the shareholders and the general public, and also the wholehearted efforts of all staff in tackling difficulties and challenges, as well as their dedication and hard work in pursuit of growth. I, on behalf of the Board of Shengjing Bank, would like to take this opportunity to express my sincere gratitude to all of you.

In 2018, we will bring our new development concept to practice in all aspects and closely focus on our three major goals, namely “serving the real economy, preventing and controlling risks, and deepening the reform”, to thoroughly implement strategic transformation and business innovation, continuously promote optimal adjustment to assets, liabilities, customers and business structure, vigorously promote the strategic network of the “One Headquarter and Two Centers” and the establishment and development of specialised institutions, further accelerate the transition to a business model of “light assets and light capital”, and promote Shengjing Bank to achieve high quality and sustainable development for a new chapter in its history. In the new round of repositioning due to competition in the financial sector, we will strengthen our strategic management, perfect our risk control system and strive to remain as a market leader among our peers in the hope of sharing more and more fruitful results with our staff, rewarding our shareholders by achieving further outstanding performance and fulfilling our social responsibilities as a public company through a more stable growth of the Bank.

## HONOURS AND AWARDS

Titles of Honour	Awarding Entity
Ranked 190th among the Top 1,000 World Banks for 2017 and 24th among all Chinese banks in the list; selected as “2017 Top 500 Enterprises in China” and “2017 Top 500 Service Enterprises in China”	The Banker (Britain)
Ranked 24th among the Top 100 Chinese Banks for 2017	China Banking Association
“The Best City Commercial Bank” Award in connection with the Comprehensive Wealth Management Ability Evaluation of Commercial Bank	China Banking Association
Best Listed Company and Best Investment Value Award for 2017	China Financial Market, a financial magazine in Hong Kong
The Most Competitive Small and Medium Bank for 2017	Financial News
Social Responsibility Bank with Excellent Competitiveness for 2017	China Business Journal
Listed on the “Financial Inclusion List” in the “2017 China Small and Medium Bank Pioneer List”	National Business Daily
2017 Most Trustworthy Bank Award and 2017 Outstanding Small and Medium Bank Award	Jinrongjie
2016 Jinniu Wealth Management Product Award	China Securities Journal
Financial Technology and Service Excellence Innovation Award of “2017 Fintech Best Practices – Innovative Small and Medium Bank for Risk Management”	Financial Computerization Magazine Press
Interbank Local Currency Market Core Dealer for 2017 and Top 300 Interbank Local Currency Market Trader for 2017	National Interbank Funding Center

## HONOURS AND AWARDS (CONTINUED)

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Titles of Honour	Awarding Entity
2017 Top 50 Interbank Foreign Exchange Market Award, Best Foreign Currency Pair Membership Award	China Foreign Exchange Trading System
“Best Progress Underwriter”, “Outstanding Innovative Underwriter”, “Outstanding Interbank Market Underwriter” and “Outstanding Green Bond Underwriter” for 2017	China Development Bank
“Outstanding Underwriter” for 2017	Agricultural Development Bank of China, Export-Import Bank of China
2017 Excellent China Bond Member – Excellent Proprietary Trader – City Commercial Bank	China Central Depository & Clearing Co., Ltd.
2017 Most Popular Banking Wealth Management Product, Highest Customer Satisfaction Bank, Financial Support to Real Economy Achievement Award	LiaoShen Evening NEWS
Customer Satisfaction Enterprise in Liaoning Province	Liaoning Association of Quality
Awarded the Advanced Unit for 2017 in the Promotion of Financial Knowledge in the Banking Industry in Liaoning	CBRC Liaoning Bureau
Outstanding Contribution Unit for Employees’ Cultural Construction in Shenyang City	Shenyang Federation of Trade Unions
“Top 10 Best Employers in Shenyang” among 2017 China Best Employer	Social Research Center of Peking University, Zhilian Zhaopin

# MANAGEMENT DISCUSSION AND ANALYSIS

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## 5.1 ENVIRONMENT AND PROSPECTS

The world economy is at present sustaining a mild recovery and is coming out of the shadow from financial crisis step by step. It is, however, also undergoing a substantial adjustment in the landscape of the international relations and a remarkable change in the international economic order. Domestically, as the economy is changing from the stage of speedy growth to the stage of high quality development, it is at the crucial period of changing its methods of development, optimising its economic structure and transforming its growth momentum. In 2018, by following the principles determined during the Central Economic Work Conference, China will continue to adhere to the general approach of work of making progress while maintaining stability and will also uphold the new development philosophy. By following the requirements on quality development, the Bank will also coordinate an array of works to facilitate a stable growth, promote reform, adjust the relevant structures, bring benefits to the people's livelihood and prevent risks, resulting in broadening the economic development prospects and also bringing in opportunities for the development of the financial industry.

There is also a remarkable change in both the market environment and the policy landscape that the banking industry is exposed to. The trend of financial disintermediation and mixed business operation has been further reinforced. With the accelerated growth in Internet and financial technology, together with the continuous improvement in the regulatory framework governing the "Dual Pillars", namely the monetary policy and macroprudential policy, the regulatory policies tend to be more comprehensive, coordinated, refined and stringent. In the future, the banking industry will grow in an orderly manner under a competitive environment, optimise its customers and business structures on a continuous basis, significantly enhance its risk control capability and improve from time to time the refined management with an aim to maximise its contributions to the real economy.

With respect to the sustainability vision of the Bank, i.e. to develop itself into "a comprehensive, diversified and quality joint-stock commercial bank with a leading position among banks of the same type", the Bank will further speed up the adjustment of its business structure and the transformation of its profit-making model in order to improve the asset efficiency and investment returns. The Bank will also continuously improve its corporate governance structure, deepen the reforms related to systems and mechanisms, strengthen its risk control capability and team building and also create an excellent corporate brand with an aim to fully improving our core competitiveness.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### 5.2 DEVELOPMENT STRATEGIES

In the next two to three years, the Bank will proactively adapt to the new trend of economic development. In following the sustainability vision of the Bank, i.e. to develop itself into a comprehensive, diversified and quality joint-stock commercial bank with a leading position among banks of the same type”, the Bank will seize the opportunities arising as a result of deepening the economic reform by continuously optimising the ideas and methods to serve the real economy and effectively improving the quality and effectiveness of risk management for the purpose of achieving a win-win situation for both itself and the regional economy.

To achieve the above objectives, the Bank will adopt the following measures. First, the Bank will vigorously develop its light capital and light asset business so as to achieve a stable growth of operating profit with a higher asset efficiency rate and a lesser capital consumption. Second, the Bank will create a development approach of “One Headquarters and Two Centers” under which the head office in the northeastern region will be the headquarters while the Beijing-Tianjin-Hebei regions will become a centre for investment banking and interbank business and the Yangtze River Delta River region will become the financial transaction and product innovation centre, in the hope of setting up the three major poles of growth with complementary advantages and synergies. Third, by positioning our customer services as those featured with strong corporate strength, solid retail foundation and extensive network coverage, the Bank will consolidate the quality customer base and deepen the cooperation with strategic customers in order to improve the customer satisfaction and loyalty level. Fourth, both the capital management capability and the financial cost control will be enhanced in order to achieve a rationalised allocation of resources and to maximise profits under capital constraints and also to effectively improve the level of refined management. Fifth, by adhering to the prudent and stable risk management strategies, the Bank will continuously promote the development of a comprehensive risk management system which accord with the regulatory requirements, growth strategies and risk-related features. Sixth, the Bank will improve its information technology standard, strengthen the support and guidance effects of information technology in promoting business growth, and increase the level of smart operation and management throughout the Bank. Seventh, the Bank will deepen the reforms related to systems and mechanisms, perfect its corporate governance structure, facilitate the reform of its organisational structure, optimise the incentive and restraint mechanism and provide additional inputs in team building. Eighth, we will vigorously cultivate the corporate culture and proactively perform its social responsibilities with an aim to enhancing the competitiveness of the brand and achieving a stable improvement of the corporate image.

### 5.3 BUSINESS REVIEW

In response to the opportunities and challenges emerging from the economic and financial environment, regulatory policies, market conditions and industry competition during 2017, Shengjing Bank took the initiative in putting the new development philosophy into practice, establishing strategic goals and business concepts on undergoing a transformational change and adjusting the business strategy and management method, the Bank has been experiencing a trend of steady progress, positive development and continuous improvement in its business operation.

As at 31 December 2017, the Bank had total assets of RMB1,030.617 billion, representing a year-on-year increase of 13.8%; balance of loans and advances to customers of RMB279.513 billion, representing a year-on-year increase of 18.7%; balance of total deposits from customers of RMB473.581 billion, representing a year-on-year increase of 14.0%; net profit of RMB7.574 billion, representing a year-on-year increase of 10.1%; and non-performing loan ratio of 1.49%, representing a year-on-year decrease of 0.25 percentage point.

In the light of the three major goals, i.e. “serving the real economy, controlling financial risks and deepening the financial reform”, the Bank was firmly determined to implement the structural adjustment, innovation via reform as well as development via transformation. The Bank took the initiative adjusting its corporate development strategy, enhanced its in-depth marketing efforts targeted at the basic clientele and, for the purpose of optimising the resources allocation for the development of the real economy, further improved the quality and efficiency of its services in promoting the development of the real economy. The Bank was dedicated to manage its retail customers, to achieve business innovation and also to optimise its functions with an aim to facilitating the expansion of its service channels and improving its services as well as promoting a diversified development of its retail business. Under the “One Headquarters and Two Centers” strategy and the professional operation system, the Bank accelerated the transformation of its business into a “light asset and light capital” model, further optimised the adjustment of its business structure and improved its business development results.

The Bank strengthened the comprehensive risk management system and multi-level compliance management system. By insisting on implementing the differentiated risk control strategy, rigorously controlling the emergence of additional risks and preventing the incurrence of existing risks, the Bank carried out inspections of compliance risks and self-assessments of a full range of risks, resulting in taking the advantage of the internal audit effectively and improving the comprehensive risk management ability of the Bank continuously.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4 FINANCIAL REVIEW

#### 5.4.1 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	42,277,528	36,055,533	6,221,995	17.3
Interest expense	(30,201,911)	(22,837,867)	(7,364,044)	32.2
<b>Net interest income</b>	<u>12,075,617</u>	<u>13,217,666</u>	<u>(1,142,049)</u>	<u>(8.6)</u>
Net fee and commission income	1,612,758	1,913,907	(301,149)	(15.7)
Net trading (losses)/gains	(1,121,332)	191,051	(1,312,383)	(686.9)
Net gains arising from investments	151,085	892,217	(741,132)	(83.1)
Net foreign exchange gains/(losses)	475,938	(151,337)	627,275	N/A
Other operating income	55,617	50,372	5,245	10.4
Operating income	13,249,683	16,113,876	(2,864,193)	(17.8)
Operating expenses	(3,617,442)	(3,730,598)	113,156	(3.0)
Impairment losses on assets	(1,403,284)	(3,675,411)	2,272,127	(61.8)
<b>Profit before tax</b>	<u>8,228,957</u>	<u>8,707,867</u>	<u>(478,910)</u>	<u>(5.5)</u>
Income tax expense	(654,818)	(1,829,575)	1,174,757	(64.2)
<b>Net profit</b>	<u>7,574,139</u>	<u>6,878,292</u>	<u>695,847</u>	<u>10.1</u>

In 2017, the Bank's profit before tax was RMB8.229 billion, representing a year-on-year decrease of 5.5%; net profit was RMB7.574 billion, representing a year-on-year increase of 10.1%.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4.1.1 Net Interest Income

Net interest income constitutes the largest component of the operating income of the Bank, accounting for 91.1% and 82.0% of the operating income of the year of 2017 and 2016, respectively. The following table sets forth the interest income, interest expense and net interest income of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change (%)
Interest income	42,277,528	36,055,533	6,221,995	17.3
Interest expense	(30,201,911)	(22,837,867)	(7,364,044)	32.2
<b>Net interest income</b>	<b>12,075,617</b>	<b>13,217,666</b>	<b>(1,142,049)</b>	<b>(8.6)</b>

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on interest-earning assets or the related average costs of interest-bearing liabilities for the years indicated. The average balances of the interest-earning assets and interest-bearing liabilities for the years of 2017 and 2016 are the average balances derived from the Bank's management accounts and have not been audited:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
<b>Interest-earning assets</b>						
Loans and advances to customers	236,549,440	15,259,589	6.45	196,890,632	13,387,183	6.80
Financial investments	446,531,087	23,397,440	5.24	395,224,238	18,284,081	4.63
Deposits with central bank	63,608,707	918,974	1.44	57,363,080	862,163	1.50
Deposits with banks and other financial institutions	39,070,902	1,983,921	5.08	84,603,006	2,994,430	3.54
Financial assets held under resale agreements	7,332,192	272,859	3.72	11,467,239	245,107	2.14
Placements with banks and other financial institutions	9,946,886	312,482	3.14	4,799,081	97,849	2.04
Financial assets at fair value through profit or loss	4,350,424	132,263	3.04	6,130,902	184,720	3.01
<b>Total interest-earning assets</b>	<b>807,389,638</b>	<b>42,277,528</b>	<b>5.24</b>	<b>756,478,178</b>	<b>36,055,533</b>	<b>4.77</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Average balance	Interest income/ expense	Average yield/ cost (%)	Average balance	Interest income/ expense	Average yield/ cost (%)
<b>Interest-bearing liabilities</b>						
Borrowings from central bank	77,356,904	2,311,544	2.99	59,216,093	1,727,404	2.92
Deposits from customers	429,095,818	15,898,021	3.71	465,991,521	14,048,925	3.01
Deposits from banks and other financial institutions	70,293,030	3,434,680	4.89	90,954,784	3,558,913	3.91
Financial assets sold under repurchase agreements	49,723,687	1,649,460	3.32	17,162,711	373,281	2.17
Placements from banks and other financial institutions	41,570,271	916,807	2.21	15,481,803	240,440	1.55
Debt securities issued	110,529,949	5,991,399	5.42	83,990,402	2,888,904	3.44
<b>Total interest-bearing liabilities</b>	<b>778,569,659</b>	<b>30,201,911</b>	<b>3.88</b>	<b>732,797,314</b>	<b>22,837,867</b>	<b>3.12</b>
Net interest income		12,075,617			13,217,666	
Net interest margin <sup>(1)</sup>			1.36			1.65
Net interest yield <sup>(2)</sup>			1.50			1.75

*Notes:*

- (1) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (2) Calculated by dividing net interest income by average balance of total interest-earning assets on annualised basis.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rates for the years indicated. Volume and rate variances have been measured based on movements in average balances over these years, and changes in interest rates have been measured based on daily average interest-earning assets and interest-bearing liabilities. Variances caused by changes in both volume and interest rate have been allocated to the interest rate.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017 vs. 2016		
	Increase/ (decrease) Volume <sup>(1)</sup>	Due to Rate <sup>(2)</sup>	Net increase/ (decrease) <sup>(3)</sup>
<b>Interest-earning assets</b>			
Loans and advances to customers	2,696,799	(824,393)	1,872,406
Financial investments	2,375,507	2,737,852	5,113,359
Deposits with central bank	93,684	(36,873)	56,811
Deposits with banks and other financial institutions	(1,611,836)	601,327	(1,010,509)
Financial assets held under resale agreements	(88,490)	116,242	27,752
Placements with banks and other financial institutions	105,015	109,618	214,633
Financial assets at fair value through profit or loss	(53,592)	1,135	(52,457)
<b>Changes in interest income</b>	<b>3,517,087</b>	<b>2,704,908</b>	<b>6,221,995</b>
<b>Interest-bearing liabilities</b>			
Borrowings from central bank	529,712	54,428	584,140
Deposits from customers	(1,110,561)	2,959,657	1,849,096
Deposits from banks and other financial institutions	(807,875)	683,642	(124,233)
Financial assets sold under repurchase agreements	706,573	569,606	1,276,179
Placements from banks and other financial institutions	404,371	271,996	676,367
Debt securities issued	912,960	2,189,535	3,102,495
<b>Changes in interest income expense</b>	<b>635,180</b>	<b>6,728,864</b>	<b>7,364,044</b>
<b>Changes in net interest income</b>	<b>2,881,907</b>	<b>(4,023,956)</b>	<b>(1,142,049)</b>

Note:

- (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield or cost for the previous period.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

### 5.4.1.2 Interest Income

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2017		2016	
	Amount	of total (%)	Amount	of total (%)
Loans and advances to customers				
Corporate loans (including discounted bills)	14,759,973	34.9	13,031,884	36.1
Personal loans	499,616	1.2	355,299	1.0
Sub-total	<u>15,259,589</u>	<u>36.1</u>	<u>13,387,183</u>	<u>37.1</u>
Financial investments	23,397,440	55.4	18,284,081	50.7
Deposits with central bank	918,974	2.2	862,163	2.4
Deposits with banks and other financial institutions	1,983,921	4.7	2,994,430	8.3
Financial assets held under resale agreements	272,859	0.6	245,107	0.7
Placements with banks and other financial institutions	312,482	0.7	97,849	0.3
Financial assets at fair value through profit or loss	<u>132,263</u>	<u>0.3</u>	<u>184,720</u>	<u>0.5</u>
<b>Total</b>	<u><u>42,277,528</u></u>	<u><u>100.0</u></u>	<u><u>36,055,533</u></u>	<u><u>100.0</u></u>

The Bank's interest income increased by 17.3% from RMB36.056 billion for the year of 2016 to RMB42.278 billion for the year of 2017, primarily due to (i) an increase in the volume of financial investments and (ii) an increase in the volume of loans and advances to customers.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1. Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers constitutes an important part of the interest income, accounting for 36.1% and 37.1% of the interest income for the years of 2017 and 2016, respectively. The following table sets forth the average balances of the loans and advances to customers, related interest income and the average yield of 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 (including discounted bills)	229,991,638	14,759,973	6.42	190,208,831	13,031,884	6.85
Personal loans	6,557,802	499,616	7.62	6,681,801	355,299	5.32
<b>Total</b>	<b>236,549,440</b>	<b>15,259,589</b>	<b>6.45</b>	<b>196,890,632</b>	<b>13,387,183</b>	<b>6.80</b>

### 2. Interest Income from Financial Investments

Interest income from financial investments increased by 28.0% from RMB18.284 billion for the year of 2016 to RMB23.397 billion for the year of 2017, mainly due to increase in the average balance and the average yield of our financial investments.

### 3. Interest Income from Deposits with Central Bank

Interest income from deposits with central bank increased by 6.6% from RMB862 million for the year of 2016 to RMB919 million for the year of 2017.

### 4. Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions decreased by 33.7% from RMB2.994 billion for the year of 2016 to RMB1.984 billion for the year of 2017, mainly due to the sharp decrease in both the average balance and the yield of the deposits with banks and other financial institutions.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5. Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements increased by 11.3% from RMB245 million for the year of 2016 to RMB273 million for the year of 2017, mainly because SHIBOR has been on the rise since 2017, and the yield of financial assets held under resale agreements followed the same trend.

#### 5.4.1.3 Interest expense

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2017		2016	
	Amount	of total (%)	Amount	of total (%)
Borrowings from central bank	2,311,544	7.7	1,727,404	7.6
Deposits from customers	15,898,021	52.6	14,048,925	61.5
Deposits from banks and other financial institutions	3,434,680	11.4	3,558,913	15.6
Financial assets sold under repurchase agreements	1,649,460	5.5	373,281	1.6
Placements from banks and other financial institutions	916,807	3.0	240,440	1.1
Debt securities issued	5,991,399	19.8	2,888,904	12.6
<b>Total</b>	<b>30,201,911</b>	<b>100.0</b>	<b>22,837,867</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1. Interest Expense on Deposits from Customers

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Average balance	Interest expense	Average Cost (%)	Average balance	Interest expense	Average Cost (%)
<b>Corporate deposits</b>						
Demand	80,004,431	767,596	0.96	75,399,260	679,883	0.90
Time	233,602,237	10,687,591	4.58	270,713,730	9,451,648	3.49
Sub-total	313,606,668	11,455,187	3.65	346,112,990	10,131,531	2.93
<b>Personal deposits</b>						
Demand	14,197,540	57,369	0.40	13,331,088	55,227	0.41
Time	101,291,610	4,385,465	4.33	106,547,443	3,862,167	3.62
Sub-total	115,489,150	4,442,834	3.85	119,878,531	3,917,394	3.27
<b>Total deposits from customers</b>	<b>429,095,818</b>	<b>15,898,021</b>	<b>3.71</b>	<b>465,991,521</b>	<b>14,048,925</b>	<b>3.01</b>

Interest expense on deposits from customers increased by 13.2% from RMB14.049 billion for the year of 2016 to RMB15.898 billion for the year of 2017, primarily due to the continued growth of the deposit business and higher proportion of time deposits.

### 2. Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions decreased by 3.5% from RMB3.559 billion for the year of 2016 to RMB3.435 billion for the year of 2017, indicating a slight change.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### *3. Interest Expense on Financial Assets Sold under Repurchase Agreements*

Interest expense on financial assets sold under repurchase increased significantly by 341.9% from RMB373 million for the year of 2016 to RMB1.649 billion for the year of 2017, primarily due to the surge of average daily balance of financial assets sold under repurchase agreements from RMB17.163 billion in 2016 to RMB49.724 billion in 2017 and a rise in average cost.

### *4. Interest Expense on Placements from Banks and Other Financial Institutions*

Interest expense on placements from banks and other financial institutions increased by 281.3% from RMB240 million for the year of 2016 to RMB917 million for the year of 2017, mainly due to the increase of average daily balance of placements from banks and other financial institutions and a rise in average cost.

### *5. Interest Expense on Debt Securities Issued*

In 2017, the interest expense on the debt securities issued by the Bank amounted to RMB5.991 billion, representing a significant increase of 107.4% as compared to that in the same period of last year, which was mainly due to the issuance of interbank deposits worth RMB485.3 billion in 2017.

#### **5.4.1.4 Net Interest Spread and Net Interest Margin**

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

Net interest spread of the Bank decreased by 0.29% from 1.65% for the year of 2016 to 1.36% for the year of 2017, and the net interest margin of the Bank decreased from 1.75% for the year of 2016 to 1.50% for the year of 2017, primarily due to the rising costs of interest-bearing liabilities on the ground that: (i) the yield of loans and advances to customers with high returns decreased; (ii) SHIBOR increased in 2017 from the levels of 2016, and the capital cost grew higher, which led to a higher average cost of interest-bearing liabilities as compared with 2016. Affected by these two factors, the net interest spread recorded a decrease from the same period of last year.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4.1.5 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 in amount	Rate of Change (%)
Fee and commission income				
Agency and custody services fees	1,679,156	1,930,858	(251,702)	(13.0)
Settlement and clearing services fees	155,666	156,658	(992)	(0.6)
Bank card services fees	42,922	34,387	8,535	24.8
Fee and commission expense	(264,986)	(207,996)	(56,990)	27.4
<b>Net fee and commission income</b>	<b>1,612,758</b>	<b>1,913,907</b>	<b>(301,149)</b>	<b>(15.7)</b>

The Bank's net fee and commission income decreased from RMB1.914 billion for the year of 2016 to RMB1.613 billion for the year of 2017.

Fee and commission expense primarily include fees paid to third parties for the provision of intermediary services that can be directly classified as expenses related to the provision of such services. Fee and commission expense of the Bank increased by 27.4% from RMB208 million for the year of 2016 to RMB265 million for the year of 2017. The increase in fee and commission expenses was primarily due to an increase in relevant fees of inter-bank transactions.

#### 2. Net Trading (Losses)/Gains

For the year of 2017, the losses from the financial assets at fair value through profit or loss amounted to RMB1.121 billion, mainly affected by the foreign exchange swap derivatives with changes in the fair value.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3. Net Gains Arising from Financial Investments

In 2017, the net gains arising from investments amounted to RMB151 million, representing a decrease of 83.1% as compared with the same period in 2016. This was mainly due to the fact that Shengjing Bank seized the opportunities of market fluctuations and benefited from selling the bonds with floating profits held in the account during in 2017, while relatively there was a drop in the premium income from the disposal of bonds by the Bank in times of the upward trend of the yield rate at the bond market in 2017.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change (%)
Dividends from available-for-sale equity investments	38,601	1,120	37,481	>100.0
Net gains on disposal of available-for-sale financial assets	123,302	891,097	(767,795)	(86.2)
Net losses on disposal of held-to-maturity investments	(10,818)	–	(10,818)	N/A
<b>Total</b>	<b>151,085</b>	<b>892,217</b>	<b>(741,132)</b>	<b>(83.1)</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4.1.6 Operating Expenses

In 2017, the operating expense of the Bank amounted to RMB3.617 billion, representing a year-on-year decrease of RMB113 million or 3.0%.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change (%)
Staff costs	2,067,392	1,934,535	132,857	6.9
Business taxes and surcharges	143,641	618,822	(475,181)	(76.8)
Depreciation and amortisation	371,278	328,020	43,258	13.2
Rental and property management expenses	246,688	215,007	31,681	14.7
Office expenses	296,697	298,349	(1,652)	(0.6)
Other general and administrative expenses	491,746	335,865	155,881	46.4
<b>Total operating expenses</b>	<b>3,617,442</b>	<b>3,730,598</b>	<b>(113,156)</b>	<b>(3.0)</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1. Staff Costs

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change (%)
- Salaries, bonuses and allowances	1,541,573	1,442,776	98,797	6.8
- Pension and annuity	210,036	193,888	16,148	8.3
- Other social insurance	131,839	133,225	(1,386)	(1.0)
- Housing allowances	83,604	74,377	9,227	12.4
- Supplementary retirement benefits	973	3,268	(2,295)	(70.2)
- Others	99,367	87,001	12,366	14.2
<b>Total staff costs</b>	<b>2,067,392</b>	<b>1,934,535</b>	<b>132,857</b>	<b>6.9</b>

In 2017, total staff costs of the Bank amounted to RMB2.067 billion, representing a year-on-year increase of RMB133 million or 6.9%, primarily due to (i) an increase in the number of staff of the Bank and (ii) an improvement in methods relating to the assessment and distribution of performance-based remuneration.

### 2. Business Taxes and Surcharges

The business taxes and surcharges decreased by 76.8% from RMB619 million in the year of 2016 to RMB144 million for the year of 2017, mainly due to a change in policy by which the value-added tax was imposed in lieu of business tax effective from 1 May 2016.

### 3. Office Expenses, Rental and Property Management Expenses

Office expenses, rental and property management expenses mainly include office supplies, property rents, maintenance fees for electronic devices, security fees, conference fees and postal, telecom and printing fees. Office expenses, rental and property management expenses for the year of 2017 and 2016 were RMB543 million and RMB513 million, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4. Depreciation and Amortisation

Depreciation and amortisation increased by 13.2% from RMB328 million for the year of 2016 to RMB371 million for the year of 2017. The increase in depreciation and amortisation was primarily due to the increase in the depreciation of fixed assets resulting from expanded properties and equipment and the increase in the long-term unamortised expenses of the Bank, in particular, the renovation costs of leased properties and the expenses for opening operation outlets.

### 5. Other General and Administrative Expenses

Other general and administrative expense increased by 46.4% from RMB336 million in 2016 to RMB492 million in 2017.

#### 5.4.1.7 Impairment Losses on Assets

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change (%)
Loans and advances to customers	1,312,612	2,744,374	(1,431,762)	(52.2)
Loans and receivables	134,000	646,000	(512,000)	(79.3)
Others	(43,328)	285,037	(328,365)	(115.2)
<b>Total</b>	<b>1,403,284</b>	<b>3,675,411</b>	<b>(2,272,127)</b>	<b>(61.8)</b>

#### 5.4.1.8 Income Tax Expense

During the year of 2017, income tax expense of the Bank amounted to RMB655 million, representing a decrease of RMB1,175 million or 64.2% compared with the previous year. The effective tax rate of the Bank was 7.96%, representing a decrease of 13.05% compared with the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4.2 Analysis of the Statement of Financial Position

#### 5.4.2.1 Assets

Total assets of the Bank as at 31 December 2017 and 2016 were RMB1,030.617 billion and RMB905.483 billion, respectively. The principal components of our assets are (i) loans and advances to customers, (ii) financial investments, (iii) deposits with banks and other financial institutions, and (iv) cash and deposits with central bank, which accounted for 26.4%, 55.0%, 3.4% and 8.2%, respectively, of total assets of the Bank as at 31 December 2017. The following table sets forth the balances of principal components of total assets of the Bank 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 (%)
<b>Assets</b>				
Gross loans and advances to customers	279,513,418	27.1	235,416,650	26.0
Provision for impairment losses	(7,730,631)	(0.7)	(6,535,918)	(0.7)
Net loans and advances to customers	271,782,787	26.4	228,880,732	25.3
Financial investments <sup>(1)</sup>	566,365,837	55.0	463,365,698	51.2
Deposits with banks and other financial institutions	35,414,260	3.4	90,789,790	10.0
Cash and deposits with central bank	84,201,957	8.2	71,375,747	7.9
Financial assets held under resale agreements	20,339,752	2.0	16,039,394	1.8
Placements with banks and other financial institutions	34,327,733	3.3	21,138,110	2.3
Derivative financial assets	429,386	0.0	276,546	0.0
Precious metal	274,310	0.0	–	–
Other assets <sup>(2)</sup>	17,481,409	1.7	13,616,630	1.5
<b>Total assets</b>	<b>1,030,617,431</b>	<b>100.0</b>	<b>905,482,647</b>	<b>100.0</b>

Notes:

- (1) Includes held-to-maturity investments, receivables and available-for-sale financial assets, but excludes financial assets at fair value through profit or loss for the period.
- (2) Includes interest receivables, property and equipment, other receivables, deferred income tax assets and other assets.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Total assets of the Bank increased by 13.8% from RMB905.483 billion as at 31 December 2016 to RMB1,030.617 billion as at 31 December 2017. The growth in total assets of the Bank was largely the result of the economic growth of Liaoning Province, which was driven by the national strategy to revitalize the Northeast rustbelt, the implementation of the Bank's cross-region operations, the rapid growth of our customer base and various business lines, and the increase in loans and advances to customers and financial investments.

### 1. *Loans and Advances to Customers*

The total loans and advances to customers made by the Bank as of 31 December 2017 amounted to RMB279.513 billion with an increase of 18.7% compared with the end of the previous year. The total loans and advances to customers accounted for 27.1% of total assets with an increase of 1.1 percentage points compared with the end of the previous 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				
– Corporate loans	262,549,690	94.0	223,598,360	95.0
– Discounted bills	1,955,529	0.7	3,657,876	1.6
Personal loans				
– Residential mortgage	9,227,270	3.3	4,519,168	1.9
– Personal consumption loans	3,988,457	1.4	2,502,220	1.1
– Credit cards	674,173	0.2	523,837	0.2
– Personal business loans	1,062,927	0.4	534,159	0.2
– Others	55,372	0.0	81,030	0.0
<b>Total loans and advances to customers</b>	<b>279,513,418</b>	<b>100.0</b>	<b>235,416,650</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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The loans and advances to customers made by the Bank consist mainly of corporate loans (including discounted bills) and personal loans. Corporate loans constitute the largest component of the Bank's loan portfolio. The Bank's corporate loans as at 31 December 2017 and 31 December 2016 amounted to RMB264.505 billion and RMB227.256 billion, respectively, and accounted for 94.7% and 96.6%, respectively, of total loans and advances to customers made by the Bank, mainly attributable to (i) the Bank's continuous focus on extending loans to enterprises in key industries, such as the wholesale and retail industry, manufacturing industry and renting and business activities; and (ii) increases in the relevant loan balance as a result of the Bank's continuous efforts to strengthen the business cooperation with key quality corporate clients.

The personal loans of the Bank mainly include residential mortgage, personal business loans, credit cards, personal business loans and other personal loans. The balance of personal loans amounted to RMB15.008 billion, representing an increase of RMB6.848 billion or 83.9% when compared to that at the end of the previous year, and accounted for 5.3% of total loans and advances to customers. Among personal loans, residential mortgage increased by RMB4.708 billion or 104.2% when compared to that at the end of the previous year, mainly driven by the demand from the personal residential mortgage loan market; personal consumption loans increased by RMB1.486 billion or 59.4% when compared to that at the end of the previous year. Given China's economic development and the growth of people's income and consumption demands, the Bank offered more personal consumption loans and expanded the customer base via marketing network expansion, thereby driving the growth of personal consumption loans.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1) Loans by collateral

As at 31 December 2017 and 31 December 2016, loans secured by mortgages, pledges or guarantees, in aggregate, represented 93.4% and 91.2% of total loans and advances to customers. If a loan is secured by more than one form of collateral, the entire amount of such loan is allocated to the category representing the primary form of collateral. The following table sets forth the distribution of loans and advances to customers by collateral type 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 (%)
Loans secured by mortgages loans	109,919,300	39.3	101,776,176	43.2
Loans secured by pledges	25,017,254	9.0	19,358,290	8.2
Guaranteed loans	126,048,740	45.1	93,531,633	39.8
Unsecured loans	18,528,124	6.6	20,750,551	8.8
<b>Total loans and advances to customers</b>	<b>279,513,418</b>	<b>100.0</b>	<b>235,416,650</b>	<b>100.0</b>

The structure of collaterals of the Bank's loans and advances to customers is stable, and the Bank's capability of mitigating risks is solid. As at 31 December 2017, the balance of loans secured by mortgages, pledges and guarantee amounted to RMB260.985 billion, representing an increase of RMB46.319 billion or 21.6% compared with that at the end of the previous year, accounting for 93.4% of total loans and advances to customers, which indicated a higher proportion than that at the end of the previous year; the balance of unsecured loans was RMB18.528 billion, representing a decrease of RMB2.222 billion when compared with that at the end of the previous year, accounting for 6.6% of total loans and advances to customers, which indicated a lower proportion than that at the end of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2) Changes in provision for impairment on loans and advances to customers

The following table sets forth the changes in the provision for impairment on loans and advances to customers for the periods indicated:

	As at 31 December 2017				As at 31 December 2016			
	Provision for impairment on loans and advances which are collectively assessed	Provision for impaired loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are individually assessed	Total	Provision for impairment on loans and advances which are collectively assessed	Provision for impaired loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are individually assessed	Total
Balance as at the beginning of the year	4,379,900	102,589	2,053,429	6,535,918	3,612,734	29,142	286,754	3,928,630
Charge for the year	1,983,638	73,543	472,843	2,530,024	1,418,847	86,892	2,000,914	3,506,653
Release for the year	(857,152)	(54,972)	(305,288)	(1,217,412)	(651,681)	(13,186)	(97,412)	(762,279)
Disposals for the year	-	-	-	-	-	-	-	-
Unwinding of discount	-	-	(110,278)	(110,278)	-	-	(43,380)	(43,380)
Write-offs for the year	-	(8,866)	-	(8,866)	-	(281)	(97,297)	(97,578)
Recoveries for the year	-	27	1,218	1,245	-	22	3,850	3,872
<b>Balance as at the end of the year</b>	<b>5,506,386</b>	<b>112,321</b>	<b>2,111,924</b>	<b>7,730,631</b>	<b>4,379,900</b>	<b>102,589</b>	<b>2,053,429</b>	<b>6,535,918</b>

Provision for impairments on loans and advances to customers increased by 18.3% from RMB6.536 billion as of 31 December 2016 to RMB7.731 billion as of 31 December 2017, mainly because the Bank properly increased the loan provision ratio as a result of changes in the macro-economic conditions and the relevant requirements of the regulatory authorities.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2. Financial Investments

As of 31 December 2017 and 31 December 2016, the respective financial investments (including loans and receivables, available-for-sale financial assets and held-to-maturity investments, but excluding financial assets at fair value through profit or loss) of the Bank amounted to RMB566.366 billion and RMB463.366 billion, representing 55.0% and 51.2% of total assets of the Bank, respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017		As at 31 December 2016	
	Amount	of total (%)	Amount	of total (%)
<b>Available-for-sale financial assets</b>	103,729,104	18.4	46,328,907	10.0
– Bonds issued by policy banks	18,086,614	3.2	13,740,574	3.0
– Government bonds	2,579,626	0.5	25,235,064	5.4
– Bonds issued by banks and other financial institutions	20,235,766	3.6	404,796	0.1
– Corporate bonds	7,661,698	1.4	6,564,448	1.4
– Wealth management products issued by financial institutions	4,710,000	0.8	–	–
– Investment funds	50,071,375	8.8	–	–
– Equity investment	384,025	0.1	384,025	0.1
<b>Held-to-maturity investments</b>	224,536,165	39.6	171,504,761	37.0
– Bonds issued by policy banks	91,460,083	16.1	65,800,264	14.2
– Government bonds	107,016,384	18.9	75,012,016	16.2
– Bonds issued by banks and other financial institutions	25,166,186	4.4	29,766,124	6.4
– Corporate bonds	893,512	0.2	926,357	0.2
<b>Investments classified as receivables</b>	238,100,568	42.0	245,532,030	53.0
– Investment management products managed by securities companies	137,276,867	24.2	156,798,192	33.9
– Investment management products under trust scheme	99,736,701	17.6	69,940,838	15.1
– Wealth management products issued by financial institutions	2,500,000	0.4	20,072,000	4.3
Less: Provision for loans and receivables	(1,413,000)	(0.2)	(1,279,000)	(0.3)
<b>Total</b>	<b>566,365,837</b>	<b>100.0</b>	<b>463,365,698</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The total financial investments of the Bank increased by 22.2% from RMB463.366 billion as of 31 December 2016 to RMB566.366 billion as of 31 December 2017. Held-to-maturity investments increased by RMB53.031 billion as compared with that at the end of the previous year. This was mainly due to increase in the liquidity reserves of the Bank caused by the increase in the Bank's holding of government bonds and bonds issued by policy banks which are of high liquidity and low risks. Financial investments in relation to loans and receivables decreased by RMB7.431 billion compared with that at the end of the previous year, mainly attributable to the maturity of the asset management plans of the Bank and some wealth management products issued by financial institutions purchased by the Bank.

### 2.1 Changes in the provision for investments classified as receivables

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017	As at 31 December 2016
Balance at the beginning of the year	(1,279,000)	(633,000)
Provision for the year	(134,000)	(646,000)
<b>Balance as at the end of the year</b>	<b>(1,413,000)</b>	<b>(1,279,000)</b>

### 5.4.2.2 Liabilities

As of 31 December 2017 and 31 December 2016, the total liabilities of the Bank were RMB978.362 billion and RMB859.108 billion, respectively. The Bank's liabilities mainly consisted of (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 48.4%, 15.7%, 14.4% and 7.7%, respectively, with respect to the Bank's total liabilities as of 31 December 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the components of the Bank's total liabilities for 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 (%)
Borrowings from central bank	48,160,000	4.9	118,800,000	13.8
Deposits from customers	473,580,808	48.4	415,246,159	48.3
Deposits from banks and other financial institutions	153,651,596	15.7	143,378,530	16.7
Derivative financial liabilities	1,268,879	0.1	14,206	0.0
Financial liabilities at fair value through profit or loss	18,553,887	1.9	–	–
Financial assets sold under repurchase agreements	75,623,265	7.7	40,285,591	4.7
Debt securities issued	140,920,240	14.4	87,289,181	10.2
Placements from banks and other financial institutions	51,323,948	5.2	38,940,901	4.5
Other liabilities <sup>(1)</sup>	15,279,152	1.7	15,153,453	1.8
<b>Total</b>	<b>978,361,775</b>	<b>100.0</b>	<b>859,108,021</b>	<b>100.0</b>

Note:

- (1) Including interest payable, amounts in settlement accounts, staff's remuneration payable, deferred income, tax payable, amounts in dormant accounts and other liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1. Deposits from Customers

The Bank provides demand and time deposit products to corporate and personal customers. The following table sets forth the Bank's deposits from customers, and product types 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 (%)
<b>Corporate deposits</b>				
Demand deposits	114,625,939	24.2	74,575,104	17.9
Time deposits	172,364,434	36.4	165,133,167	39.8
<b>Sub-total</b>	<u>286,990,373</u>	<u>60.6</u>	<u>239,708,271</u>	<u>57.7</u>
<b>Personal deposits</b>				
Demand deposits	14,551,352	3.1	14,398,743	3.5
Time deposits	127,528,837	26.9	111,842,098	26.9
<b>Sub-total</b>	<u>142,080,189</u>	<u>30.0</u>	<u>126,240,841</u>	<u>30.4</u>
Other deposit <sup>(1)</sup>	<u>44,510,246</u>	<u>9.4</u>	<u>49,297,047</u>	<u>11.9</u>
<b>Total</b>	<u>473,580,808</u>	<u>100.0</u>	<u>415,246,159</u>	<u>100.0</u>

Note:

(1) Mainly including pledged deposits.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As of 31 December 2017, the Bank's total deposits from customers amounted to RMB473.581 billion, with an increase of RMB58.335 billion or 14.0% as compared with the number recorded at the end of the previous year. Total deposits from customers accounted for 48.4% with respect to the total liabilities, representing an increase of 0.1% as compared with the end of the previous year.

In 2017, the Bank's deposits from customers maintained a steady growth, mainly due to an increase in corporate deposits, of which, demand deposits and time deposits from corporate customers increased by 53.7% and 4.4%, respectively as compared with the end of the previous year. This was primarily due to the fact that the Bank furthered its efforts in implementing the client-based marketing strategies, optimised its service channels and promoted the development of its branch network, resulting in attracting additional customers.

### 2. Debt Securities Issued

The following table sets forth the components of the Bank's debt securities issued for the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017 Amount	As at 31 December 2016 Amount
Tier 2 capital bond with fixed rate maturing in May 2024	2,200,000	2,200,000
Tier 2 capital bond with fixed rate maturing in December 2025	10,000,000	10,000,000
Tier 2 capital bond with fixed rate maturing in December 2027	6,000,000	–
Financial fixed rate bonds maturing in August 2019	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	2,000,000	2,000,000
Interbank certificates of deposit issued	115,720,240	68,089,181
<b>Total</b>	<b>140,920,240</b>	<b>87,289,181</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB2,200 million in the national inter-bank bond market on 28 May 2014. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 6.18%. Interest on such bonds shall be paid once per year. Upon approval by the CBRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB10 billion in the national inter-bank bond market on 4 December 2015. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 4.57%. Interest on such bonds shall be paid once per year. Upon approval by the CBRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB6 billion in the national inter-bank bond market on 18 December 2017. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 4.90%. Interest on such bonds shall be paid once per year. Upon approval by the CBRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued financial fixed rate bonds in the aggregate of RMB5 billion on 26 August 2016 with the term of maturity of 3 years and an annual coupon rate of 3.00%.

The Bank issued financial fixed rate bonds in the aggregate of RMB2 billion on 26 August 2016 with the term of maturity of 5 years and an annual coupon rate of 3.10%.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In 2017, the Bank in total issued the fixed-rate interbank certificates of deposit with a nominal value of RMB485.310 billion with the coupon rate of 3.75% to 5.55% with one-off interest payment on a term all within one year.

As of 31 December 2017, the balance of interbank certificates of deposit issued by the Bank was RMB115.720 billion.

### 5.4.2.3 Equity

The following table sets forth the components of the equity of the Bank 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	5,796,680	11.1	5,796,680	12.5
Capital reserve	11,855,505	22.7	11,855,505	25.5
Surplus reserve	5,352,502	10.2	4,666,968	10.1
General reserve	11,034,031	21.1	9,267,100	20.0
Investment revaluation reserve	(335,375)	(0.6)	(92,044)	(0.2)
Reserve on remeasurement of defined benefit liability	(6,076)	(0.0)	(5,468)	(0.0)
Retained earnings	17,984,108	34.4	14,305,688	30.8
Non-controlling interests	574,281	1.1	580,197	1.3
<b>Total equity</b>	<b>52,255,656</b>	<b>100.0</b>	<b>46,374,626</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4.3 Loan quality analysis

#### 5.4.3.1 Breakdown of loans by the five-category classification

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. The non-performing loans of the Bank are classified as substandard, doubtful and loss.:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2017		31 December 2016	
	Amount	of total (%)	Amount	of total (%)
Normal	270,618,933	96.8	225,793,939	95.9
Special mention	4,738,655	1.7	5,516,390	2.3
Substandard	3,892,356	1.4	3,915,006	1.7
Doubtful	226,086	0.1	171,128	0.1
Loss	37,388	0.0	20,187	0.0
<b>Total loans and advance to customers</b>	<b>279,513,418</b>	<b>100.0</b>	<b>235,416,650</b>	<b>100.0</b>
<b>Non-performing loans</b>	<b>4,155,830</b>	<b>1.49</b>	<b>4,106,321</b>	<b>1.74</b>

In 2017, the Bank continued to enhance its comprehensive risk management, to rigorously manage the incurrence of any additional risk and to intensify its effects in preventing the existing risks, and as a result there was a continuous improvement in the quality of our credit assets. As of 31 December 2017, the balance of non-performing loans of the Bank amounted to RMB4.156 billion and the non-performing loan ratio was 1.49%, representing a decrease of 0.25 percentage point as compared to the ratio recorded at the end of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4.3.2 Concentration of loans

#### 1. Concentration by Industry and Distribution of Non-performing Loans

Corporate loans consist of loans to customers in a broad range of industries. The following table sets forth the breakdown of loans and non-performing loans by the industry as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2017				31 December 2016			
	Loan amount	Non-performing of total (%)	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	Non-performing of total (%)	Non-performing loan amount	Non-performing loan ratio (%)
Wholesale and retail	100,926,576	36.1	402,498	0.40	73,940,527	31.4	497,053	0.67
Renting and business activities	43,369,518	15.6	4,991	0.01	34,912,668	14.8	-	-
Manufacturing	40,540,165	14.5	3,251,045	8.02	36,474,375	15.5	2,827,607	7.75
Real estate	28,298,413	10.1	13,922	0.05	30,306,590	12.9	309,062	1.02
Construction	10,241,283	3.7	286,594	2.80	7,430,303	3.2	303,900	4.09
Transportation, storage and postal services	7,529,093	2.7	2,000	0.03	9,880,743	4.2	2,000	0.02
Production and supply of electric power, heat, gas and water	4,624,882	1.7	-	-	4,315,242	1.8	-	-
Mining	2,821,800	1.0	-	-	2,183,200	0.9	-	-
Culture, sports and entertainment	2,527,612	0.9	10,000	0.40	2,876,880	1.2	-	-
Accommodation and catering	6,151,850	2.2	8,760	0.14	5,622,820	2.4	8,820	0.16
Agriculture, forestry, animal husbandry and fishery	2,618,419	0.9	58,000	2.22	2,098,825	0.9	47,500	2.26
Household and other service	1,696,850	0.6	-	-	3,045,395	1.3	-	-
Public administration and social organisation	180,000	0.1	-	-	398,000	0.2	-	-
Others	11,023,229	3.9	4,988	0.05	10,112,792	4.3	2,300	0.02
Discounted bills	1,955,529	0.7	-	-	3,657,876	1.6	-	-
Personal loans	15,008,199	5.3	113,032	0.75	8,160,414	3.4	108,079	1.32
<b>Total</b>	<b>279,513,418</b>	<b>100.0</b>	<b>4,155,830</b>	<b>1.49</b>	<b>235,416,650</b>	<b>100.0</b>	<b>4,106,321</b>	<b>1.74</b>

*Note:* Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As of 31 December 2017, loans provided to customers in the industries of (i) wholesale and retail, (ii) renting and business activities, (iii) manufacturing and (iv) real estate represented the largest components of the Bank's corporate loans. As of 31 December 2017 and 31 December 2016, the balance of loans provided to the corporate customers in the four industries mentioned above were RMB213.135 billion and RMB175.634 billion, respectively, accounting for 76.3% and 74.6%, respectively, with respect to the Bank's loans and advances to customers. The wholesale and retail industry and the renting and business activities experienced the greatest increase, by 36.5% and 24.2% or by RMB26.986 billion and RMB8.457 billion, respectively.

### 2. Concentration of Borrowers

Loans to the ten largest single borrowers

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

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2017		
	Industry involved	Amount	of the total (%)
<b>Customer</b>			
Customer A	Real estate	5,350,000	1.91
Customer B	Renting and business activities	5,161,000	1.85
Customer C	Manufacturing	4,350,300	1.56
Customer D	Wholesale and retail	3,900,000	1.40
Customer E	Real estate	3,221,280	1.15
Customer F	Water, environment and public facilities management	2,980,000	1.07
Customer G	Manufacturing	2,700,000	0.97
Customer H	Real estate	2,700,000	0.97
Customer I	Wholesale and retail	2,540,000	0.91
Customer J	Transportation, storage and postal services	2,500,000	0.89

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3. Distribution of Non-performing Loans by Product Type

The following table sets forth the loans and non-performing loans by product type as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2017			31 December 2016		
	Loan amount	Non-performing	Non-performing	Loan amount	Non-performing	Non-performing
		loan amount	loan ratio		loan amount	loan ratio
			(%)			(%)
Corporate loans	264,505,219	4,042,798	1.53	227,256,236	3,998,242	1.76
Short-term loans	113,812,617	4,015,798	3.53	93,534,756	3,781,992	4.04
Medium and long term loans	148,737,073	27,000	0.02	130,063,604	216,250	0.17
Discounted bills	1,955,529	–	0.00	3,657,876	–	0.00
Personal loans	15,008,199	113,032	0.75	8,160,414	108,079	1.32
Residential mortgage	9,227,270	56,170	0.61	4,519,168	52,262	1.16
Personal business loans	1,062,927	14,332	1.35	534,159	28,506	5.34
Personal consumption loans	3,988,457	19,564	0.49	2,502,220	11,500	0.46
Credit card overdrawn	674,173	22,266	3.30	523,837	15,711	3.00
Other	55,372	700	1.26	81,030	100	0.12
<b>Total</b>	<b>279,513,418</b>	<b>4,155,830</b>	<b>1.49</b>	<b>235,416,650</b>	<b>4,106,321</b>	<b>1.74</b>

The non-performing loan ratio, defined as non-performing loans divided by the Bank's total loans and advances to customers, was 1.49% as of 31 December 2017 and 1.74% as of 31 December 2016.

As of 31 December 2017 and 31 December 2016, the non-performing loan ratio of the Bank's corporate loans (including discounted bills) was 1.53% and 1.76%, respectively.

As of 31 December 2017 and 31 December 2016, the non-performing loan ratio of the Bank's personal loans was 0.75% and 1.32%, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4. Overdue Loans and Advances to Customers

The following table sets forth the aging analysis of the Bank's overdue loans and advances to customers for the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2017		31 December 2016	
	Amount	of total (%)	Amount	of total (%)
Overdue within 3 months	1,244,158	23.4	2,261,976	36.7
Overdue more than 3 months to 1 year	636,084	12.0	3,333,890	54.1
Overdue more than 1 year and within 3 years	3,244,589	61.1	493,718	8.0
Overdue more than 3 years	187,423	3.5	76,751	1.2
<b>Total overdue loans and advances to customers</b>	<b>5,312,254</b>	<b>100.0</b>	<b>6,166,335</b>	<b>100.0</b>

Note: Overdue loans and advances to customers include credit card advances.

## 5.4.4 Segment information

### 5.4.4.1 Summary of Geographical Segment

The Bank is mainly operating within China. It has 18 branches in five provinces and municipalities directly under the Central Government. It has also established seven subsidiaries in Liaoning Province, Shanghai and Zhejiang Province.

(Expressed in thousands of Renminbi, unless otherwise stated)	Operating income As at 31 December				Non-current assets			
	2017		2016		31 December 2017		31 December 2016	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Northeast China	11,526,922	87.0	14,263,677	88.5	5,169,995	93.5	4,594,028	92.4
North China	1,294,866	9.8	1,247,406	7.7	327,394	5.9	353,087	7.1
Others	427,895	3.2	602,793	3.8	34,121	0.6	24,141	0.5
<b>Total</b>	<b>13,249,683</b>	<b>100.0</b>	<b>16,113,876</b>	<b>100.0</b>	<b>5,531,510</b>	<b>100.0</b>	<b>4,971,256</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4.4.2 Summary of Business Segment

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

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December			
	2017		2016	
	Amount	of total (%)	Amount	of total (%)
<b>Operating in-come</b>				
Corporate banking	7,453,248	56.3	11,444,430	71.0
Personal banking	1,247,347	9.4	1,056,891	6.6
Treasury business	4,482,436	33.8	3,594,702	22.3
Others	66,652	0.5	17,853	0.1
<b>Total</b>	<b>13,249,683</b>	<b>100.0</b>	<b>16,113,876</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.4.5 Analysis of Off-balance Sheet Items

Credit commitments and other off-balance sheet items of the Bank mainly include bank acceptances, issued letters of credit, issued letters of guarantee, unused credit card commitments, operating lease commitments and capital commitments. Credit commitments constitute the major component of off-balance sheet items, and consist of bank acceptances, issued letters of credit, issued letters of guarantees, and unused credit card commitments. Bank acceptances 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 as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2017	31 December 2016
Unused credit card commitments	2,246,054	2,146,488
Guarantees, acceptances and letters of credit	170,781,889	152,442,135
Operating lease commitments	670,345	653,877
Capital commitments	506,604	1,489,017
Pledged assets	230,677,111	162,656,903
<b>Total</b>	<b>404,882,003</b>	<b>319,388,420</b>



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.5 BUSINESS OVERVIEW

#### 5.5.1 Corporate Banking Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December		
	2017	2016	Rate of change (%)
External net interest income	3,074,065	5,276,840	(41.7)
Internal net interest income	3,263,264	4,641,628	(29.7)
Net interest income	6,337,329	9,918,468	(36.1)
Net fee and commission income	1,092,152	1,493,971	(26.9)
Other operating income	23,767	31,991	(25.7)
Impairment losses on assets	(1,242,791)	(2,965,388)	(58.1)
Operating expenses	(2,494,393)	(2,556,271)	(2.4)
— Depreciation and amortisation	(272,077)	(245,159)	11.0
— Others	(2,222,316)	(2,311,112)	(3.8)
Profit before tax	3,716,064	5,922,771	(37.3)
Capital expenditure	682,966	668,133	2.2

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31	As at 31	Rate of change (%)
	December 2017	December 2016	
Segment assets	306,888,617	271,909,537	12.9
Segment liabilities	347,859,946	294,518,492	18.1

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **5.5.1.1 Corporate Deposits**

The corporate deposits showed a stable growth. The Bank actively enforced the strategy of customer development, further implemented customer-oriented marketing approaches, continuously improved the deposit contribution from strategic customers, dug out potential fiscal capital, maintained a steady growth in basic customers and further expanded the scale of cash collection from customers and agency settlement. As at 31 December 2017, the balance of corporate deposits of the Bank amounted to RMB286.99 billion, which accounted for 60.6% of the balance of total deposits, and led to an increase of RMB47.282 billion or 19.7% compared to last year.

According to the information provided by the Business Management Department of the PBOC Shenyang Branch, as at 31 December 2017, the balance of Renminbi corporate deposits with the Bank in Shenyang area amounted to RMB223.772 billion, ranking first among the banks in Shenyang area for consecutive years. The Renminbi corporate deposits with the Bank in Shenyang area represent a market share of 25%, increased by 8 percentage points from the end of last year.

### **5.5.1.2 Corporate Loans**

In line with the development of the real economy, the Bank effectively seized the opportunities brought by the transformation in the regional economic structure, optimised the allocation of its credit resources, and increased credit granting to quality industries and customers. As at 31 December 2017, the balance of our corporate loans (excluding discounted bills) amounted to RMB262.550 billion, representing an increase of RMB38.952 billion or 17.4% as compared to last year.

Firstly, the Bank adhered to serving the real economy and supporting the transformation and upgrading of the local economy. The Bank actively involved itself in the practice of regional economic transformation and development, and further enhanced the business cooperation with key quality customers in the region. Secondly, the Bank made greater effort to support small and medium-sized enterprises, effectively eased their financing problems and actively provided finance services to small and medium-sized enterprises. In addition, the Bank vigorously engaged in businesses such as receivables pledge, share pledge, trademark right pledge, warehouse receipt pledge and patent right pledge, so as to satisfy the customers' financing demands in all respects. Thirdly, the Bank increased its support to the supply side reform. We took initiative to assist the equipment manufacturing industry and other traditional industries in their transformation and upgrading, while providing great support to the development of emerging strategic industries such as environment and information technology industries, and at the same time took active measures to properly address the problem of surplus capacity of steel and coal industries.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.5.2 Retail Banking

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December		
	2017	2016	Rate of change (%)
External net interest expense	(3,943,219)	(3,562,095)	10.7
Internal net interest income	4,680,749	4,208,432	11.2
Net interest income	737,530	646,337	14.1
Net fee and commission income	509,817	408,906	24.7
Other operating income	–	1,648	(100.0)
Impairment losses on assets	(26,493)	(64,023)	(58.6)
Operating expenses	(758,728)	(681,626)	11.3
– Depreciation and amortisation	(84,447)	(70,862)	19.2
– Others	(674,281)	(610,764)	10.4
Profit before tax	462,126	311,242	48.5
Capital expenditure	211,981	193,121	9.8

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31	As at 31	Rate of change (%)
	December 2017	December 2016	
Segment assets	31,484,360	15,508,795	>100.0
Segment liabilities	149,457,550	132,016,734	13.2

#### 5.5.2.1 Personal Deposits

The Bank further consolidated its traditional strength in payroll agency service and agency collection and payment service. Focusing on customers' requirements, we improved our long chain financial construction and optimised customers experience in electronic function. We also greatly pushed forward innovation in smart deposit products. Through a series measures, including flexible deposit terms, interest payment methods and product portfolios, we drove the growth of personal deposits. As at 31 December 2017, the balance of our personal deposits amounted to RMB142.080 billion, representing an increase of RMB15.839 billion or 12.6% compared to the end of the previous year, of which the balance of Shenyang area amounted to RMB117.715 billion, representing 17.8% of the balance of all financial institutions in Shenyang. The increase in our deposits amounted to RMB11.142 billion, representing a share of 32.7% of the total increase of all financial institutions in Shenyang. Both our balance of and increase in personal deposits ranked the first in Shenyang.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **5.5.2.2 Personal Loans**

By exploiting our advantages in “light capital” in retail business, the Bank made all efforts to push forward the development of the retail credit business of the Bank through implementing differentiated customer entry and pricing management, strengthening interaction in supervising and incentive regime, focusing on product innovation and channel construction, and speeding up credit granting. Personal loans (including mortgage loans, personal consumption loans, credit cards, personal business loans and other personal loans) increased by RMB6.848 billion or 83.9% to RMB15.008 billion as compared to the end of the previous year, of which personal mortgage loans increased by RMB4.708 billion to RMB9.227 billion compared to the end of the previous year; personal consumption loans increased by RMB1.486 billion to RMB3.988 billion compared to the end of the previous year; and personal business loans and other personal loans increased by RMB503 million to RMB1.118 billion compared to the end of the previous year.

### **5.5.2.3 Bank Cards**

The Bank vigorously promoted the function expansion and upgrading of bank card use, such as easy payment through bank cards and account management, and continuously improved customers card use experience, resulting in rapid increase in cards insurance. As at 31 December 2017, the Bank has issued 11.6256 million debit cards in total, representing an increase of 1.6987 million compared to the beginning of the year, with total expenditures of RMB27.234 billion.

### **5.5.2.4 Wealth Management Business**

Adhering to a prudent investment philosophy, the Bank actively expanded its investment fields, deepened the cooperation of interbank business, intensified the autonomous investment in primary market securities, and launched the first wealth management scheme and direct financing tool among the urban commercial banks in northeast China. Furthermore, we continuously innovated categories of perpetual open-end wealth management products and launched wealth management business transfer function. As a result, our competitiveness in product category and business function was strengthened greatly and the value of our wealth management products brand was enhanced steadily. As at 31 December 2017, the Bank offered a total of 704 tranches of wealth management products, amounting to RMB123.517 billion, with a renewed balance of RMB47.383 billion. The Bank gained an income of RMB494 million from wealth management, and was awarded the “Best Urban Commercial Bank” for comprehensive abilities by the China Banking Association, the “Taurus Wealth Management Product” by Xinhua News Agency, and “Outstanding Urban Commercial Bank” by China Banking Wealth Management Registration Center for wealth management information registration.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.5.3 Capital Business and Investment Banking

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December		
	2017	2016	Rate of change (%)
External net interest income	12,944,771	11,502,921	12.5
Internal net interest expense	(7,944,013)	(8,850,060)	(10.2)
Net interest income	5,000,758	2,652,861	88.5
Net fee and commission income	10,789	11,030	(2.2)
Net trading (losses)/gains	(1,121,332)	191,051	>100.0
Net gains arising from investments	112,484	891,097	(87.4)
Net foreign exchange gains/(losses)	475,938	(151,337)	>100.0
Other operating income	3,799	–	N/A
Impairment losses on assets	(134,000)	(646,000)	(79.3)
Operating expenses	(360,783)	(488,418)	(26.1)
– Depreciation and amortisation	(14,754)	(11,999)	23.0
– Others	(346,029)	(476,419)	(27.4)
Profit before tax	3,987,653	2,460,284	62.1
Capital expenditure	37,036	32,700	13.3

(Expressed in thousands of Renminbi, unless otherwise stated)	December 31	December 31	Rate of change (%)
	2017	2016	
Segment assets	689,886,627	616,269,165	11.9
Segment liabilities	480,907,987	432,257,727	11.3

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **5.5.3.1 Treasury Business**

In 2017, the Bank ensured that its capital business operate in a steady way by responding to the changing market and the stricter regulatory requirements in an effective way, tapping potentials in the financial market and channel advantages, implementing diversified strategic measures, insisting on the development of standardized products and the operation with light capital, light assets, enhancing expansion of market channels and customer-orientated marketing, strengthening integration of home and foreign currencies, analysing the trend in capital market and promptly adjusting the investment strategies in capital business, thus it effectively controlled the adverse effect caused by market risks.

#### **1. Money Market Transactions**

In 2017, as our financing channels were diversified upon being qualified to trading in derivatives and precious metals, we expanded our financing business in foreign currencies and formed a comprehensive financing mode with both home and foreign currencies. As at 31 December 2017, the balance of the deposits and placements from banks and other financial institutions and the financial assets sold under repurchase agreements of the Bank was RMB280.599 billion, representing 28.7% of the total liabilities of the Bank; the balance of the deposits and placements with banks and other financial institutions and the financial assets held under resale agreements of the Bank was RMB90.082 billion, representing 8.7% of the total assets of the Bank.

#### **2. Investment in Securities and Other Financial Assets**

The Bank seized market opportunities and formulated reasonable investment strategies to optimise investment portfolio and maintain a diversified assets structure. Firstly, we increased investment in standardized bonds, mainly government bonds and financial bonds of policy banks; secondly, we diversified investment types, increased investment in public funds and enhanced liquidity and profitability of assets; thirdly, we diligently increased investment in beneficial rights in trusts, adjusted development model and optimised business structure, and continued to diversify our serving methods (by completing the first stock pledged repurchase business and the PPP project, thus becoming the first urban commercial bank to operate in business of direct financing for wealth management in three northeastern provinces).

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1) Securities and other financial assets investment by holding purpose

(Expressed in thousands of Renminbi unless otherwise stated)	As at 31 December 2017		As at 31 December 2016	
	Amount	Accounted for (%)	Amount	Accounted for (%)
Available-for-sale financial assets	103,729,104	18.3	46,328,907	10.0
Held-to-maturity investments	224,536,165	39.6	171,504,761	37.0
Loans and receivables	238,100,568	42.1	245,532,030	53.0
<b>Total</b>	<b>566,365,837</b>	<b>100.0</b>	<b>463,365,698</b>	<b>100.0</b>

### 2) Securities and other financial assets investment by remaining maturity

(Expressed in thousands of Renminbi unless otherwise stated)	As at 31 December 2017		As at 31 December 2016	
	Amount	Accounted for (%)	Amount	Accounted for (%)
Less than three months (inclusive)	89,321,039	15.8	83,529,054	18.0
Between three months and twelve months (inclusive)	166,501,050	29.4	202,460,809	43.7
Between one and five years (inclusive)	221,666,104	39.1	140,434,816	30.3
More than five years	88,877,644	15.7	36,941,019	8.0
<b>Total</b>	<b>566,365,837</b>	<b>100.0</b>	<b>463,365,698</b>	<b>100.0</b>

As at 31 December 2017, the Bank's securities investment with a remaining maturity of less than 12 months decreased by RMB30.168 billion compared to the end of the previous year, representing a decrease of 16.5% as to the proportion to the total securities investment.

### 5.5.4 Trade Finance

In 2017, as the government rolled out the “One Road One Belt” initiative and the supply-side structural reform, by seizing lots of strategic opportunities under national development, such as internationalization of Renminbi and “Going-out” of enterprises, the Bank pushed forward the development of light trade finance, effectively controlled risks and expanded business scale, enhanced profitability, speeded up product innovation, optimized trade finance service system and continuously enhanced trade finance service capacities.

In 2017, all trade and finance indicators of the Bank demonstrated a steady growth. Its settlement amount reached US\$13 billion, representing a year-on-year increase of 11%; it conducted trade financings of RMB16 billion, representing a year-on-year increase of 15%; and it realised a net revenue of RMB727 million, representing a year-on-year increase of 46%.

### 5.5.5 Distribution Channels

#### 5.5.5.1 *Physical Outlets*

As at 31 December 2017, the Bank operated businesses through its head office in Shenyang, three branch-level specialised institutions and 197 branches and sub-branches covering 18 cities including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning province. These 18 cities are mostly located in developed regions such as Northeast China, the Bohai Rim and the Yangtze River Delta Economic Zone, which enjoy advantageous policies and huge market opportunities.

#### 5.5.5.2 *Self-service Banking*

The Bank accelerated the development of smart and light outlets and enhanced service capacities of the outlets by putting in place new self-serving facilities such as card activating machines, VTMs, online banking machines, mobile banking machines and smart queuing machines. As at 31 December 2017, the Bank owned 2,491 self-service facilities, including 329 ATMs, 278 cash recycling systems, 126 inquiry and payment machines, 159 card activating machines, 21 VTMs, 24 online banking machines, 24 mobile banking machines, 10 smart queuing machines and 1,520 community smart terminals, providing its customers with financial services such as cash withdrawal, account inquiry, cash deposit, change of password, fund transfer, card activating, and activating of e-channel and short message alerts.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **5.5.5.3 Electronic Banking**

The Bank adhered to the principle of customer first and meeting customers' preference and pushed forward upgrading of mobile banking and online banking, which resulted in enhanced customer experience and a customer base of over 100 million households as well as steady increment in customer access and trading volume.

#### **1. Online Banking**

##### **1) Corporate online banking**

In response to the demands of corporate customers, the Bank continued enhancing its online services for corporate capital and actively improved the settlement efficiency and the comprehensive services. As at 31 December 2017, the Bank had 18,508 online banking corporate customers, representing an increase of 40% compared to the end of the previous year; RMB1,779.381 billion in the cumulative transaction value, representing a year-on-year increase of 53%; and 894,600 transactions, representing a year-on-year increase of 35%.

##### **2) Personal Online Banking**

The Bank made continuous efforts to meet the needs of personal online banking customers and optimised the services and functions of its personal online banking by adding such new functions as smart transfer, instant transfer, instant payment, etc. As at 31 December 2017, the Bank had cumulatively 308,400 online banking personal customers, representing an increase of 67% compared to the end of the previous year; 871,200 transactions for the year, representing a year-on-year increase of 88%; and RMB28.635 billion in the cumulative transaction value for the year, representing a year-on-year increase of 117%.

#### **2. Mobile Banking**

The Bank adhered to its strategy of taking mobile banking as a priority and focused on mobile financial services. It rolled out mobile banking version 2.0, optimised three function modules, i.e. mobile finance, financial supermarket, community life, and enhanced interactive customer experience and function developing capacities. As at 31 December 2017, the Bank had cumulatively 618,000 mobile banking customers, with 2.2973 million transactions of a cumulative transaction value of RMB13.597 billion for the year 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3. Television Banking

The Bank promoted the popularity and marketing of its television banking in Liaoning and Shenyang region, carried out scenario demonstration in communities and enabled customers to enjoy professional banking services just at home. By far the television services of the Bank have extended to over 90,000 households in Shenyang, Anshan, Tieling and other areas. In 2017, the Bank rolled out Android version television banking in order to further meet customers' needs.

## 5.5.6 Subsidiaries

### 5.5.6.1 Investment in Subsidiaries

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017	As at 31 December 2016
Shenyang Shenbei Fumin Rural Bank Co., Ltd. ("Shenyang Shenbei")	35,321	35,321
Shenyang Xinmin Fumin Rural Bank Co., Ltd. ("Shenyang Xinmin")	6,230	6,230
Shenyang Faku Fumin Rural Bank Co., Ltd. ("Shenyang Faku")	6,262	6,262
Shenyang Liaozhong Fumin Rural Bank Co., Ltd. ("Shenyang Liaozhong")	6,097	6,097
Ningbo Jiangbei Fumin Rural Bank Co., Ltd. ("Ningbo Jiangbei")	30,039	30,039
Shanghai Baoshan Fumin Rural Bank Co., Ltd. ("Shanghai Baoshan")	62,208	62,208
Shengjing Bank Consumer Finance Co., Ltd. ("Shengjing Consumer")	180,000	180,000
<b>Total</b>	<b>326,157</b>	<b>326,157</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 31 December 2017, background information of the subsidiaries is as follows:

	Date of incorporation	Place of incorporation, registration and operations	Registered capital (Expressed in thousands of Renminbi)	Percentage owned by the Bank	Business sector
Shenyang Shenbei	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku	26/10/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong	26/11/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan	09/09/2011	Shanghai, China	150,000	40%	Banking
Shengjing Consumer	25/02/2016	Liaoning, China	300,000	60%	Consumption finance

### 5.6 RISK MANAGEMENT

Major risks to which the Bank is exposed include credit risk, operational risk, market risk, liquidity risk, etc. In 2017, when the economic and financial situations remained complicated and changing home and abroad, the Bank further advanced its strategy of prudent and stable risk management. In particular, the Bank adhered to the principles of “compliance with law, prudent operation, sound development and effective control”, strictly complied with the risk bottom lines and continuously improved its comprehensive risk management system. The Bank also strengthened its forward-looking analysis of policies and market, advance planning and proactive management as well as emphasised on reasonable and effective allocation of capital, gains and risks. Therefore, all the Bank’s business lines operated steadily.

### 5.6.1 Credit Risk Management

Credit risk occurs when customers or counterparties are unable or unwilling to perform their obligations to the Bank. The Bank's credit risk mainly exists in credit business and treasury business.

In 2017, under the circumstances that the supply-side reform has been pushed forward, the financial regulation has been strengthened and the market competition has been intensified, the Bank adhered to the strategy of prudent and sound risk control, strengthened whole process credit risk control, standardized credit management, and enhanced credit risk control capacities. The Bank continued its efforts to build the risk management system, improved business administration measures and operational procedures by taking advantage of the opportunity to conduct credit risk detection, set up the "three-check" system against credit risks, strengthened its risk control measures, thereby standardising its risk management practice. The Bank strengthened its forward-looking research and study of industries and policies, cautiously reviewed the location selection, customer segmentation and project screening, refined the strategic management of investment targets, emphasised on the risk control in key industries and areas, and adopted various risk control measures such as pledge, security and guarantee, thereby having enhanced its ability to manage the credit risks. By implementing supervision over specialised inspections against "three violations, three arbitrages, four misconducts, ten risks" and on-site monitoring, the Bank thoroughly carried out self-inspection for regulated operation and risk management, focused on key industries and issues, continuously enhanced the effectiveness of its risk warning, timely spotted potential risk signals, and implemented risk control measures including supplementing with more solid assets and securities and minimizing risk exposures. Therefore, the Bank's risk exposures were reduced, quality of existing assets was further improved, and capacities of credit risk control were enhanced.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### 5.6.2 Operational Risk Management

Operational risk refers to the risk of loss that may incur due to inadequate or problematic internal procedures, personnel and information technology systems as well as certain external events, mainly including internal and external frauds, business interruption and failure of information technology systems.

The Bank attached great importance to the operational risk control. In 2017, the Bank continued its efforts to build the operation risk management system, actively improved its rules and regulations on operational risk management covering the whole lines, whole process, all positions and all products, analysed the typical incidents of operational risk, summarised the key issues relating to operational risk and compiled a casebook on operational risk for guiding and warning purpose, thereby having refined its operational risk management. Secondly, the Bank attached high importance to the effective enhancement of the risk consciousness of its employees, made greater efforts to provide its employees with trainings on operational risk covering job skills, practical cases and others, and promptly amended and improved the operational procedures and management procedures, thus its operational risk control capacities in key businesses and areas having been effectively enhanced. Thirdly, the Bank conducted regular detections and inspections on operational risk, monitored the key indicators of operational risk for pre-warning and reporting, and exerted caution in preventing potential and existing operational risks in key areas. As a result, the Bank did not experience any operational risk incident during 2017.

### 5.6.3 Market Risk Management

Market risk refers to the risk of losses that may be sustained by the Bank's on/off-balance sheet business as a result of unfavourable changes in market price, including interest rate, exchange rate, stock price and commodity price. It mainly includes interest rate risk and exchange rate risk.

In 2017, facing the complicated and changing external environment, the Bank continuously strengthened its market risk control, proactively made a forecast of the macroscopic trends and market changes and conducted quantitative identification, measurement, assessment and management of risks in relevant businesses by using various risk management tools such as sensitivity analysis and exposure analysis. The Bank also further strengthened limit management for market risks, regularly carried out stress testing to enhance risk assessment under pressure, comprehensively identified, accurately measured and continuously monitored the market risk and limited the market risk under a bearable level.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **5.6.3.1 Market Risk of Bank Accounts**

#### **1. Interest Rate Risk Management**

The interest rate risk of bank accounts arises primarily from re-pricing of the maturity mismatch gap of the assets/liabilities business under the bank accounts of commercial banks.

The Bank managed the interest rate risk of its bank accounts by proper matching of maturities of assets and liabilities. The Bank continued monitoring and assessing interest rate risks of its bank accounts by using risk analysis tools such as gap analysis and sensitivity analysis. The Bank also simulated the stress testing in the interest rate scenario based on the analysis results in order to formulate a corresponding emergency plan. In addition, the Bank reasonably utilised its pricing mechanism for internal fund transfer to timely adjust the capital pricing, developed economic capital management system and assets and liabilities management system, strengthened its monitoring and management of the maturity gap of the deposits and loans of its branches and sub-branches, and optimised the maturity gap matching of the assets and liabilities in order to enhance its risk control capacities.

#### **2. Exchange Rate Risk Management**

Exchange rate risk refers to the risk arising from the mismatch of the currency denominations between assets and liabilities. The Bank's exposure to the exchange rate risk arises from the loans and deposits denominated in currencies other than Renminbi.

In 2017, foreign exchange rates frequently fluctuated due to changes in the economic environments home and abroad. As such, the Bank paid close attention to and advanced its analysis of the trends in macro-economy and foreign exchanges. In particular, the Bank effectively prevented the exchange rate risk and protected its foreign currency assets by adopting a series of risk control measures, such as closing out market positions, regularly re-evaluating the market value of its proprietary foreign exchange capital, timely supplementing guarantee under its assets business, adjusting foreign exchange exposures, regularly conducting sensitivity analysis on foreign exchange exposures, using derivatives and carrying out stress testing of exchange rate risks.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.6.3.2 Market Risk Management of Trading Accounts

The market risk of trading accounts of the Bank arises primarily from the changes in asset values of financial products in the trading accounts due to changes in interest rates and exchange rates. The Bank mainly re-evaluates the market value of the position in its Renminbi trading accounts on a daily basis by adopting trading account risk limit indicators such as trading exposure limit, stop-loss limit and value-at-risk limit. The Bank also measures the market risk of Renminbi and foreign currency trading accounts by regularly conducting sensitivity analysis and stress testing.

### 5.6.3.3 Interest rate risk analysis

The main purpose for the management of interest rate risk is to reduce potentially negative impacts of interest rate change on net interest income and economic value.

The Bank's interest rate risk is mainly from repricing risks in commercial banking business. The repricing risk, also known as maturity mismatch risk, is the most important and common form of interest rate risk arising from differences among maturities of bank assets, liabilities and off-balance sheet businesses (in terms of fixed rates) or repricing timing (in terms of variable rates). The asymmetry of repricing causes the bank's earnings or market value to change as interest rates change.

The Bank regularly conducts asset and liability gap and interest rate sensitivity analysis, adjusts the internal fund transfer price in a timely manner to ensure that the Bank's revenue and market value continue to increase.

The table below sets out the distribution of assets and liabilities by the next repricing date (or maturity date, whichever is earlier) as at the end of the Reporting Period:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017					
	Total	Not interest-bearing	Within three months	Between three months and one year	Between one year and five years	More than five years
Total assets	1,030,617,431	19,736,279	464,395,969	280,767,206	176,622,736	89,095,241
Total liabilities	(978,361,775)	(16,548,031)	(631,431,364)	(141,905,144)	(170,277,208)	(18,200,028)
Asset-liability gap	52,255,656	3,188,248	(167,035,395)	138,862,062	6,345,528	70,895,213

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016					
	Total	Not interest-bearing	Within three months	Between three months and one year	Between one year and five years	More than five years
Total assets	905,482,647	14,919,383	438,904,645	269,469,921	143,674,625	38,514,073
Total liabilities	(859,108,021)	(15,167,659)	(397,171,065)	(262,774,026)	(166,595,246)	(17,400,025)
Asset-liability gap	<u>46,374,626</u>	<u>(248,276)</u>	<u>41,733,580</u>	<u>6,695,895</u>	<u>(22,920,621)</u>	<u>21,114,048</u>

### 5.6.3.4 Interest rate sensitivity analysis

The Bank measured potential impacts of interest rate change on its net profit and other consolidated income through sensitivity analysis. The table below sets out the sensitivity analysis as at the dates indicated based on assets and liabilities of the Bank as of the same date:

(Expressed in thousands of Renminbi, unless otherwise stated)	2017 Increase/ (decrease)	2016 Increase/ (decrease)
Change in profit after taxation		
Up 100 bps parallel shift in yield curves	(940,101)	178,702
Down 100 bps parallel shift in yield curves	<u>940,101</u>	<u>(178,702)</u>

	31 December 2017 Increase/ (decrease)	31 December 2016 Increase/ (decrease)
Change in equity		
Up 100 bps parallel shift in yield curves	(1,693,749)	(127,828)
Down 100 bps parallel shift in yield curves	<u>1,729,086</u>	<u>137,426</u>



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.6.3.5 Interest rate sensitivity analysis

The Bank measured potential impacts of exchange rate change on its net profit through sensitivity analysis. The table below sets out the results of sensitivity analysis as at the dates indicated based on assets and liabilities of the Bank as of the same date:

(Expressed in thousands of Renminbi, unless otherwise stated)	2017 Increase/ (decrease)	2016 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps parallel shift in yield curves	(30,394)	(11,022)
Down 100 bps parallel shift in yield curves	30,394	11,022

### 5.6.4 Liquidity Risk Management

Liquidity risk refers to the risk of failure to timely obtain adequate funds at a reasonable cost to repay debts when due, perform other payment obligations, or satisfy other capital needs in the ordinary course of business.

In 2017, the Bank paid close attention to the liquidity management pressure caused by the changes in the macroeconomic and financial situation and understood the importance and seriousness of liquidity risk management. Thus, it further improved its liquidity management. Firstly, it attached great importance to liquidity risk management, continuously improved its awareness of liquidity risk prevention, and incorporated liquidity risk management into its strategic management. Secondly, it strengthened diligent and reasonable pre-judgment of the financial situation and the market situation, and based on the market changes, the development of its asset and liability business and its liquidity status, the Bank actively adjusted its liquidity management strategy, and made a plan for liquidity arrangement beforehand, thereby having strengthened its capacities of liquidity prevention and control. Thirdly, it continued to strengthen the bilateral management of assets and liabilities, enhanced asset liquidity, improved the stability of the source of liabilities by multiple means and further optimised its assets/liabilities structure. Fourthly, it diversified the methods of monitoring liquidity. In particular, it paid attention to the changes in liquidity by monitoring on a daily basis, analysing on a monthly basis, and submitting reports on a quarterly basis. Based on the monitoring results, it flexibly adjusted operational strategy of liquidity and conducted stress testing every quarter to analyse the potential risk under pressure; and based on the results of stress testing, it set up corresponding liquidity risk mitigation mechanism to enhance capacities of defending liquidity risk. Fifthly, it strengthened its liquidity emergency management. Based on changes in policy and market, it formulated liquidity contingency plans and specified emergency measures in order to improve its efficiency of handling emergencies and further enhance its level of liquidity risk control.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5.6.4.1 Liquidity Risk Analysis

Facing the constant changes in the macro-environment, currency policy and regulatory policy, the Bank adhered to its prudent strategy of liquidity risk management and continuously enhanced its ability of liquidity risk management. The Bank managed liquidity risk by monitoring the maturity of assets and liabilities and actively monitored multiple liquidity indicators. In particular, it made forecasts of capital liquidity of the whole bank on a regular basis, analysed the liquidity situation on a monthly basis, and conducted stress testing for liquidity risk on a quarterly basis to make proper arrangements in advance and strengthen the active involvement and prevention in liquidity management. As such, it was ensured that the Bank have sufficient liquidity. The Bank did not experience any liquidity risk in 2017.

The analysis of the Bank's assets and liabilities as at the end of the Reporting Period based on the remaining days until due date for repayment is as follows:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017							Total
	No limit	Real-time Repayment	Within one month	Between	Between three	Between	More than five years	
				one month and three months	months and one year	one year and five years		
Total assets	66,770,745	32,189,653	86,114,281	101,336,837	324,742,525	312,235,822	107,227,568	1,030,617,431
Total liabilities	-	(186,576,822)	(299,731,234)	(152,139,738)	(144,535,053)	(177,081,320)	(18,297,608)	(978,361,775)
Net position	66,770,745	(154,387,169)	(213,616,953)	(50,802,901)	180,207,472	135,154,502	88,929,960	52,255,656

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016							Total
	No limit	Real-time Repayment	Within one month	Between	Between	Between	More than five years	
				one month and three months	three months and one year	one year and five years		
Total assets	59,854,715	36,508,008	92,366,256	91,101,971	351,188,119	226,195,166	48,268,412	905,482,647
Total liabilities	-	(115,698,211)	(188,244,708)	(97,740,306)	(266,893,576)	(172,910,594)	(17,620,626)	(859,108,021)
Net position	59,854,715	(79,190,203)	(95,878,452)	(6,638,335)	84,294,543	53,284,572	30,647,786	46,374,626

### 5.6.5 Information Technology Risk Management

Information technology risk refers to the risk that may occur to the Bank's operation, reputation or legal compliance in the process of applying information technology due to factors such as natural factors, human factors, technological limitations and management inadequacy.

In 2017, with respect to prevention of information technology risks, the Bank continued its efforts to enhance its prevention level of information technology risks by daily monitoring and regular check of information technology risks, assessment of information security and rectification of information technology risks. Firstly, the Bank established routine control mechanism of information technology risks and constantly amended and improved its information technology-related system based on the current needs of prevention of information technology risks so as to making its prevention of information technology risks and internal control more targeted and enforceable. Secondly, the Bank conducted assessment on protection of important information system at different levels and security level of e-banking system, identified potential security risks and conducted rectification in an objective and practical manner, so as to effectively ensure the safe and smooth operation of the information system of the Bank. Thirdly, the Bank strengthened testing and quality management, detected loophole to avoid risks in a timely manner by function testing and performance testing in the R&D of information system; and enhanced the service level of information technology by quality control in the process of R&D and operation and maintenance. Fourthly, the Bank conducted assessment on information technology risks on a regular basis and, according to the risk alerts and key points of information technology risks administration of regulatory authorities, it strengthened daily regulation of information technology risks, conducted self-check, routine inspection and regular investigation of security of information system, and enhanced control measures of information technology risks, so as to provide strong technological support to the business development. Fifthly, the Bank enlarged the information technology team, made efforts to control the core information technology and enhance the technological capacity and management level, and continued to enhance the support of information technology toward businesses.

### 5.6.6 Reputational Risk Management

Reputational risk refers to the risk that relevant interested parties may make negative remarks on the Bank due to the acts relating to the Bank's operation, management and other aspects or other external incidents.

In 2017, the Bank continued to strengthen its reputational risk management. Firstly, the Bank continued to improve its reputational risk management system and effectively strengthened reputational risk management by improving the transmission mechanism of responsibilities and the emergency and disposal mechanism. Secondly, the Bank comprehensively strengthened its monitoring of public sentiment by establishing a monitoring platform for public sentiment and a daily reporting system under which any incident and even zero incident should be reported, in order to enhance the timeliness and accuracy of public sentiment monitoring. Thirdly, the Bank regularly carried out inspection and assessment on reputational risk management, duly sorted out and detected potential reputational risks, and continued to enhance level of reputational risk management. Fourthly, the Bank strengthened the culture construction and cultivation of reputational risk management, proactively promoted the Bank's brand, businesses and products, and built up a positive social image of the Bank.

### 5.6.7 Compliance Risk Management

In 2017, the Bank established a sound compliance risk management framework, improved its compliance risk management system, strictly complied with the compliance management policies of the Bank, formulated and implemented a compliance management plan focusing on risk control, and strengthened the construction of a compliance risk control mechanism, thereby having optimized the environment for management and control of compliance risks. It cultivated the concept that compliance work shall start from the senior management and be undertaken by each and every employee who shall take the initiative to fulfil compliance obligations and that compliance will add value, and promoted the professional ethnics and concept of value of honesty, dutifulness and integrity within the whole bank, with a view to enhancing the compliance awareness of all employees. And it strictly implemented the compliance management functions such as examination, inspection, monitoring, alerting and system maintenance to achieve effective identification, measurement, assessment, management and reporting of compliance risks and facilitate the construction of a comprehensive risk management system.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### 5.6.8 Anti-Money Laundering Management

The Bank strictly complied with applicable anti-money laundering laws and regulations and, according to the requirements under the Administrative Measures for the Reporting of Large-value and Suspicious Transactions by Financial Institutions (Order of the People's Bank of China [2016] No. 3) (《金融機構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)), it actively implemented various regulatory requirements for anti-money laundering, optimised its monitoring system against money laundering, amended and improved internal control system against money laundering, set monitoring indicators of suspicious transactions on its own, upgraded its database of blacklist, added positions for specialised anti-money laundering personnel, strengthened manual analysis and screening of suspicious transactions, and further enhanced the value of major suspicious transaction reports. Meanwhile, the Bank conducted supervision, inspection and assessment on the anti-money laundering work of all branches and sub-branches based on the principle of management at different levels; it strictly implemented the system of client identification and maintenance of ID information of transaction records and conducted regular inspection based on the principle of security, accuracy, completeness and confidentiality; it incorporated its identification criteria of large-value and suspicious transactions into its monitoring and reporting system of anti-money laundering information and timely reported to the monitoring center of anti-money laundering data; it emphasized special training to enhance the level of anti-money laundering management within the whole bank; and it organized large-scale anti-money laundering promotion activities and thoroughly fulfilled the anti-money laundering obligations as a financial institution.

## 5.7 ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank calculates and discloses its capital adequacy ratios in accordance with the Regulations Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (effective since 1 January 2013) promulgated by the CBRC. As at 31 December 2017, the Bank's capital adequacy ratios at all tiers satisfied the regulatory requirements under such new regulations. The Bank's core tier-one capital adequacy ratio and tier-one capital adequacy ratio were both 9.04%, which were 0.06 percentage point lower than those at the end of the previous year; and the capital adequacy ratio was 12.85%, which was 0.86 percentage points higher than that at the end of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the relevant information of the Bank's capital adequacy ratio as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2017	31 December 2016
<b>Core capital</b>		
– Share capital	5,796,680	5,796,680
– Qualifying portion of capital reserve	11,855,505	11,855,505
– Surplus reserve	5,352,502	4,666,968
– General reserve	11,034,031	9,267,100
– Investment revaluation reserve	(335,375)	(92,044)
– Retained earnings	17,984,108	14,305,688
– Qualifying portions of non-controlling interests	31,285	462,462
– Others	(6,076)	(5,468)
<b>Core Tier-one Capital</b>	51,712,660	46,256,891
Core Tier-one Capital deductions	(108,088)	(91,496)
<b>Net Core Tier-one Capital</b>	51,604,572	46,165,395
Other Tier-one Capital	–	–
<b>Net Tier-one Capital</b>	51,604,572	46,165,395
<b>Tier-two Capital</b>		
– Qualifying portions of tier-two capital instruments issued	18,200,000	12,200,000
– Excess provision for loan impairment	3,574,801	2,429,598
– Core Tier-two Capital deductions	–	–
<b>Net Tier-two Capital</b>	21,774,801	14,629,598
<b>Net Capital</b>	73,379,373	60,794,993
Total risk weighted assets	571,122,793	507,222,708
<b>Core Tier-one Capital adequacy ratio</b>	9.04	9.10
<b>Tier-one Capital adequacy ratio</b>	9.04	9.10
<b>Capital adequacy ratio</b>	12.85	11.99

# SIGNIFICANT EVENTS

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## **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.

## **MATERIAL LITIGATION AND ARBITRATION**

During the Reporting Period, the Bank was not involved in any litigation or arbitration that would materially affect its business operations.

## **PUNISHMENT ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

During the Reporting Period, none of the Bank, the Directors, the Supervisors or the senior management of the Bank was subject to any investigation, administrative penalty or public criticism by the China Securities Regulatory Commission (the "CSRC") or the CBRC, or any public censure by any securities exchange, or any punishment by any other regulatory authorities which would have a material impact on the Bank's operations.

## **ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER**

During the Reporting Period, the Bank did not conduct any acquisition and disposal of assets or any business merger.

## **WITHDRAWAL OF A-SHARE LISTING APPLICATION**

Reference is made to the announcement of the Bank dated 31 March 2017. In light of the changes in a core member of the Board and the shareholding structure of the Bank during the vetting period of the Bank's A-share listing application, after consultations with the CSRC and careful studies and discussions with the professional parties involved in the Bank's A-share listing application, the Bank decided to withdraw the A-share listing application.

## SIGNIFICANT EVENTS (CONTINUED)

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### SUPPLEMENTAL UNDERTAKING BY SHENYANG HENGXIN

Reference is made to pages 164 to 165 of the prospectus of the Bank dated 15 December 2014 (the “Prospectus”) in connection with the global offering of H Shares. As disclosed in the Prospectus, on 8 October 2014, Shenyang Hengxin undertook to the Bank that, among others, it will use the proceeds from disposing of the Shares it held to repay the outstanding balance of a loan in the amount of RMB1,723 million (such loan is classified as “Other Receivables” as the loan is interest-free) (the “Relevant Receivables”) owed by Shenyang City Infrastructure Construction Investment Development Co., Ltd. (瀋陽市城市基礎設施建設投資發展有限公司) (“Shenyang City Construction”) in full within two years from the date on which the H Shares first commenced trading on the Hong Kong Stock Exchange.

Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to, among other things, the proposed plan for the A Share Offering; and (ii) the announcements of the Bank dated 5 July 2015, 27 August 2015, 27 November 2015 and 30 November 2015 in relation to, among other things, the A Share Offering. The CSRC has accepted the application materials for the A Share Offering. A copy of the A share prospectus has been made available on the official website of the CSRC ([www.csrc.gov.cn](http://www.csrc.gov.cn)) for preliminary publication.

As confirmed by the Bank’s PRC legal advisers, pursuant to the relevant PRC laws and regulations as well as the regulatory requirements of the CSRC and the relevant securities exchange, Shenyang Hengxin, as a major holder of Domestic Shares, is not allowed to dispose of any Domestic Shares held by it before completion of the A Share Offering. In addition, the Domestic Shares held by Shenyang Hengxin will be subject to lock-up for 36 months from completion of the A Share Offering (the “Lock-up Period”). After negotiation among the Bank, Shenyang City Construction and Shenyang Hengxin regarding repayment of the outstanding balance of the Relevant Receivables, on 11 November 2016, Shenyang Hengxin provided a supplemental undertaking to the Bank (the “Supplemental Undertaking”) that: (i) Shenyang Hengxin will continue to perform its obligations (including using the proceeds from disposal of a portion of the Shares it held to repay the outstanding balance of the Relevant Receivables) to repay the outstanding balance of the Relevant Receivables in full within 24 months from the expiry of the Lock-up Period; and (ii) without the Bank’s written consent, Shenyang Hengxin will not dispose of any Shares it held, nor will it pledge or transfer any or all of such Shares or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables.



## SIGNIFICANT EVENTS (CONTINUED)

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Reference is further made to (i) the announcement of the Bank dated 31 March 2017 in relation to the withdrawal of its A-share listing application; and (ii) the announcement of the Bank dated 13 April 2017 in relation to the repayment of the Relevant Receivables by Shenyang Hengxin. The Bank and Shenyang Hengxin have been proactively pushing forward the relevant work related to the repayment of the Relevant Receivables, including but not limited to, going through the relevant approval procedures in accordance with the applicable PRC laws and regulations, with a view to implement the repayment of the Relevant Receivables.

As at the end of the Reporting Period, the outstanding balance of the Relevant Receivables due and payable was approximately RMB654 million, and the balance of the impairment provision was RMB286 million.

### **AMENDMENT TO ARTICLES OF ASSOCIATION**

Reference is made to (i) the announcement of the Bank dated 16 May 2017 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association by Shareholders at the 2016 annual general meeting of the Bank; and (ii) the announcement of the Bank dated 13 August 2017. The amended Articles of Association was approved by the CBRC Liaoning Bureau on 8 August 2017 and has become effective on the same date.

Reference is made to (i) the announcement of the Bank dated 28 February 2018 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association by Shareholders at the 2018 first extraordinary general meeting of the Bank; and (ii) the announcement of the Bank dated 8 April 2018. The amended Articles of Association was approved by the CBRC Liaoning Bureau on 23 March 2018 and has become effective on the same date.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

At the end of the Reporting Period, the Bank had a total of 5,796,680,200 Shares, comprising 4,255,937,700 Domestic Shares and 1,540,742,500 H Shares.

	31 December 2016		Changes during the Reporting Period			31 December 2017	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
1. Shareholding of Domestic Shares							
legal persons	4,134,189,139	71.32	nil	nil	nil	4,134,189,139	71.32
Of which:							
1.1 Shareholding of state-owned legal persons	715,743,100	12.35	nil	nil	nil	715,743,100	12.35
1.2 Shareholding of private legal persons	3,418,446,039	58.97	nil	nil	nil	3,418,446,039	58.97
2. Shareholding of Domestic Shares natural persons	121,748,561	2.10	nil	nil	nil	121,748,561	2.10
3. H Shares	1,540,742,500	26.58	nil	nil	nil	1,540,742,500	26.58
<b>Total</b>	<b>5,796,680,200</b>	<b>100.00</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	<b>5,796,680,200</b>	<b>100.00</b>

## ISSUANCE AND LISTING OF SECURITIES

Reference is made to the announcement of the Bank dated 31 March 2017. In light of the changes in a core member of the Board and the shareholding structure of the Bank during the vetting period of the Bank's A-share listing application, after consultations with the CSRC and careful studies and discussions with the professional parties involved in the Bank's A-share listing application, the Bank decided to withdraw the A-share listing application.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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### ISSUANCE OF DEBT SECURITIES

#### 1. Debt Securities Issued

In 2014, the Bank issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB2.2 billion and an annual interest rate of 6.18%. Such Tier 2 capital bonds will be due on 30 May 2024.

In December 2015, the Bank issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB10 billion and an annual interest rate of 4.57%. Such Tier 2 capital bonds will be due on 8 December 2025. The proceeds from the issuance of the bonds will be used to replenish the Bank's tier two capital and enhance capital adequacy ratio.

On 26 August 2016, the Bank issued financial bonds in the aggregate principal amount of RMB7 billion to members of the inter-bank bond market in China. The bonds comprise two types, which are three-year fixed rate bonds with an interest rate of 3.0% per annum and five-year fixed rate bonds with an interest rate of 3.1% per annum. The proceeds from the issuance of the bonds will be used for loans to small and miniature enterprises in accordance with the applicable laws and the approvals from regulatory authorities as well as the relevant national industrial policies.

On 18 December 2017, the Bank issued tier two capital bonds in the aggregate principal amount of RMB6 billion on the inter-bank bond market in China. The bonds are ten-year fixed-rate bonds, with annual coupon rate of 4.90%, and have a conditional issuer's redemption right at the end of the fifth year. The proceeds from the issuance of the bonds will be used to replenish the Bank's tier two capital in accordance with the applicable laws and the approvals from regulatory authorities.

#### 2. Proposed Issuance of Debt Securities

The Board has resolved, and the Shareholders have approved at the 2018 first extraordinary general meeting of the Bank held on 28 February 2018 that, subject to obtaining necessary governmental and regulatory authorities, the Bank will issue financial bonds in the aggregate principal amount of up to RMB30 billion to members of the interbank bond market in China. The bonds will have a term of maturity of not more than five years (inclusive), with the interest rate to be determined by bookbuilding-based centralised allocation or open tendering. The proceeds from the issuance of the Bonds will be used to optimise the matching structure of the Bank's medium and long-term assets and liabilities, increase and stabilise the sources of the Bank's medium and long-term liabilities, and support the Bank's medium and long-term asset business.

The debt securities as mentioned above will not be listed on the Hong Kong Stock Exchange.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

### PARTICULARS OF SHAREHOLDINGS

#### Particulars of Shareholdings of the top ten Shareholders of Domestic Shares on as at December 2017

At the end of the Reporting Period, the Bank had a total of 5,796,680,200 Shares, comprising 4,255,937,700 Domestic Shares and 1,540,742,500 H Shares.

No.	Name of Shareholder	Nature of Shareholder	Total number of Shares held	Shareholding percentage (%)	Number of Shares pledged
1	Evergrande Group (Nan Chang) Co., Ltd.	Private	1,001,680,000	17.28	0
2	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. ("Shenyang Hengxin")	State-owned	479,836,334	8.28	0
3	Liaoning Huibao International Investment Group Co., Ltd. ("Huibao International")	Private	400,000,000	6.90	0
4	Xinhu Zhongbao Co., Ltd. ("Xinhu Zhongbao")	Private	300,000,000	5.18	0
5	Founder Securities Co., Ltd. ("Founder Securities")	Private	300,000,000	5.18	0
6	Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)	Private	200,000,000	3.45	0
7	Luenmei Group Co., Ltd (聯美集團有限公司)	Private	200,000,000	3.45	0
8	Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. ("Zhongyou Tianbao")	Private	190,000,000	3.28	0
9	Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司)	Private	120,000,000	2.07	59,760,000
10	Shenyang Wuai Industrial Co., Ltd. (瀋陽五愛實業有限公司)	State-owned	118,159,093	2.04	0
Total			<u>3,309,675,427</u>	<u>57.10</u>	<u>59,760,000</u>

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2017, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the H Shares and underlying Shares of the Bank under Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Sanitu Resources Group Ltd. <sup>(1)</sup>	Interest of a controlled corporation	203,676,000 (Long position)	13.22	3.51
Luck Extreme Limited <sup>(2)</sup>	Interest of a controlled corporation	197,180,500 (Long position)	12.80	3.40
Lau Luen Hung <sup>(2)</sup>	Interest of a child under 18 or spouse	197,180,500 (Long position)	12.80	3.40
Chan Hoi Wan <sup>(2)</sup>	Interest of a controlled corporation	197,180,500 (Long position)	12.80	3.40
Ou Yaping <sup>(3)</sup>	Interest of a controlled corporation	190,435,000 (Long position)	12.36	3.29
Cheung Chung Kiu <sup>(4)</sup>	Interest of a controlled corporation	189,651,500 (Long position)	12.31	3.27
Cheng Yu Tung Family (Holdings II) Limited <sup>(5)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Cheng Yu Tung Family (Holdings) Limited <sup>(5)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook (Holding) Limited <sup>(5)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Capital Limited <sup>(5)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Nominee Limited <sup>(5)</sup>	Beneficial owner <sup>(6)</sup> Interest of a controlled corporation <sup>(6)</sup>	179,518,060 (Long position)	11.65	3.10

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Name of Shareholder	Nature of interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Shanghai International Trust Co., Ltd. (上海國際信託有限公司)	Interest of a trustee	103,000,000 (Long position)	6.69	1.78
Shun Yi International Trading Co., Ltd. (順意國際貿易有限公司)	Beneficial owner	92,785,000 (Long position)	6.02	1.60
Hwabao Trust Co., Ltd.	Interest of a trustee	90,000,000 (Long position)	5.84	1.55

*Notes:*

- (1) Murtsa Capital Management Limited held 203,676,000 H Shares of the Bank. Murtsa Capital Management Limited was wholly owned by Satinu Investment Group Ltd.; Satinu Investment Group Ltd. was wholly owned by Satinu Resources Group Ltd. By virtue of the SFO, Satinu Investment Group Ltd. and Satinu Resources Group Ltd. are deemed to be interested in the Shares held by Murtsa Capital Management Limited.
- (2) Great Captain Limited held 197,180,500 H Shares of the Bank. Great Captain Limited was wholly owned by Perfect Sign Investments Limited; Perfect Sign Investments Limited was wholly owned by Luck Extreme Limited; Luck Extreme Limited was wholly owned by Chan Hoi Wan. By virtue of the SFO, Perfect Sign Investments Limited, Luck Extreme Limited, Chan Hoi Wan and Lau Luen Hung are deemed to be interested in the Shares held by Great Captain Limited.
- (3) Smart Jump Corporation held 435,000 H Shares of the Bank. Smart Jump Corporation was wholly owned by Win Wind Capital Limited; Win Wind Capital Limited was held as to 88.22% by Enerchina Holdings Limited; Enerchina Holdings Limited was held as to 31.71% by Asia Pacific Promotion Limited; Asia Pacific Promotion Limited was wholly owned by Ou Yaping. By virtue of the SFO, Win Wind Capital Limited, Enerchina Holdings Limited, Asia Pacific Promotion Limited and Ou Yaping are deemed to be interested in the Shares held by Smart Jump Corporation.

Nu Kenson Limited held 190,000,000 H Shares of the Bank. Nu Kenson Limited was wholly owned by Win Wind Intermediary Financial Services Limited; Win Wind Intermediary Financial Services Limited was wholly owned by Win Wind Capital Limited; Win Wind Capital Limited was held as to 88.22% by Enerchina Holdings Limited; Enerchina Holdings Limited was held as to 31.71% by Asia Pacific Promotion Limited; Asia Pacific Promotion Limited was wholly owned by Ou Yaping. By virtue of the SFO, Win Wind Intermediary Financial Services Limited, Win Wind Capital Limited, Enerchina Holdings Limited, Asia Pacific Promotion Limited and Ou Yaping are deemed to be interested in the Shares held by Nu Kenson Limited.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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- (4) Bookman Properties Limited held 10,000,000 H Shares of the Bank. Bookman Properties Limited was wholly owned by Ferrex Holdings Limited; Ferrex Holdings Limited was wholly owned by Yugang International (B.V.I.) Limited; Yugang International (B.V.I.) Limited was wholly owned by Yugang International Limited; Yugang International Limited was held as to 34.33% by Chongqing Industrial Limited; Chongqing Industrial Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Ferrex Holdings Limited, Yugang International (B.V.I.) Limited, Yugang International Limited, Chongqing Industrial Limited and Cheung Chung Kiu are deemed to be interested in the Shares held by Bookman Properties Limited.

Worthwell Investments Limited held 25,000,000 H Shares of the Bank. Worthwell Investments Limited was wholly owned by Mighty Gain Enterprises Limited; Mighty Gain Enterprises Limited was wholly owned by C C Land Holdings Limited; C C Land Holdings Limited was held as to 41.37% by Thrivetrade Limited; Thrivetrade Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Mighty Gain Enterprises Limited, C C Land Holdings Limited, Thrivetrade Limited and Cheung Chung Kiu are deemed to be interested in the Shares held by Worthwell Investments Limited.

Bondic International Holdings Limited held 154,651,500 H Shares of the Bank. Bondic International Holdings Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Cheung Chung Kiu is deemed to be interested in the Shares held by Bondic International Holdings Limited.

- (5) Acemax Enterprises Limited held 50,776,620 H Shares of the Bank. Acemax Enterprises Limited was wholly owned by Chow Tai Fook Nominee Limited.

Oceanic Fortress Limited held 76,164,940 H Shares of the Bank. Oceanic Fortress Limited was wholly owned by Chow Tai Fook Nominee Limited.

Chow Tai Fook Nominee Limited held 179,518,060 H Shares of the Bank. Chow Tai Fook Nominee Limited was held as to 99.80% by Chow Tai Fook (Holding) Limited; Chow Tai Fook (Holding) Limited was held as to 78.58% by Chow Tai Fook Capital Limited; Chow Tai Fook Capital Limited was held as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively.

By virtue of the SFO, Chow Tai Fook (Holding) Limited, Chow Tai Fook Capital Limited, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited are deemed to be interested in the Shares held by Chow Tai Fook Nominee Limited.

- (6) 179,518,060 H Shares were held in the capacity of beneficial owner, and 126,941,560 H Shares were held in the capacity of a controlled corporation.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

As at 31 December 2017, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the Domestic Shares and underlying Shares of the Bank under Divisions 2 and 3 Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of Domestic Shares held	Percentage of the total number of Domestic Shares (%)	Percentage of the total share capital of the Bank (%)
China Evergrande Group <sup>(1)</sup>	Interest of a controlled corporation	1,001,680,000 (Long position)	23.54	17.28
Shenyang Hengxin	Beneficial owner	479,836,334 <sup>(2)</sup> (Long position)	11.27	8.28
Shenyang Industrial Investment Development Group Co., Ltd. <sup>(3)</sup>	Interest of a controlled corporation	479,836,334 <sup>(2)</sup> (Long position)	11.27	8.28
Huibao International	Beneficial owner	400,000,000 (Long position)	9.40	6.90
Beijing Jiutai Group Co., Ltd. <sup>(4)</sup>	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Li Yuguo <sup>(4)</sup>	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Xinhu Zhongbao	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Zhejiang Xinhu Group Co., Ltd. <sup>(5)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Huang Wei <sup>(5)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Li Ping <sup>(5)</sup>	Interest of a child under 18 or spouse	300,000,000 (Long position)	7.05	5.18
Founder Securities	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Peking University Founder Group Co., Ltd. <sup>(6)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Peking University Asset Management Company Limited <sup>(6)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18



## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

### Notes:

- (1) China Evergrande Group (a Hong Kong listed company registered in the Cayman Islands; Stock Code: 3333) was interested in 1,001,680,000 Domestic Shares, which were held by its indirect wholly-owned subsidiary, Evergrande Group (Nan Chang) Co., Ltd. (恒大集團(南昌)有限公司).
- (2) According to the register of shareholders of the Bank as at 31 December 2017, Shenyang Hengxin held 479,836,334 Domestic Shares, representing approximately 11.27% of the total number of Domestic Shares and 8.28% of the total share capital of the Bank, respectively.
- (3) Shenyang Hengxin was wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. (沈陽產業投資發展集團有限公司) is deemed to be interested in the Shares held by Shenyang Hengxin.
- (4) Huibao International was wholly owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which was in turn owned as to 100% by Li Yuguo (李玉國). By virtue of the SFO, Beijing Jiutai Group Co., Ltd. and Li Yuguo are deemed to be interested in the Shares held by Huibao International.
- (5) Based on the information provided by Xinhua Zhongbao, Xinhua Zhongbao was owned as to 32.41%, 16.86%, 5.38% and 2.44% by Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司), Huang Wei (黃偉), Ningbo Jiayuan Industry Development Co., Ltd. (寧波嘉源實業發展有限公司) and Zhejiang Hengxingli Holdings Group Co., Ltd. (浙江恒興力控股集團有限公司), respectively; Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司) owned 99% of Ningbo Jiayuan Industry Development Co., Ltd. (寧波嘉源實業發展有限公司), and Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司) fully owned Zhejiang Hengxingli Holdings Group Co., Ltd. (浙江恒興力控股集團有限公司); Huang Wei (黃偉) owned 67.22% of Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司). By virtue of the SFO, each of Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司), Huang Wei (黃偉) and Li Ping (李萍) are deemed to be interested in the Shares held by Xinhua Zhongbao.
- (6) Based on the information provided by Founder Securities, Founder Securities was owned as to 29.29% by Peking University Founder Group Co., Ltd. (北大方正集團有限公司), which was in turn owned as to 70% by Peking University Asset Management Company Limited (北大資產經營有限公司).

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

## SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

As at the end of the Reporting Period, Evergrande Group (Nan Chang) Co., Ltd., Shenyang Hengxin, Huibao International, Xinhua Zhongbao and Founder Securities held 1,001,680,000 Domestic Shares, 479,836,334 Domestic Shares, 400,000,000 Domestic Shares, 300,000,000 Domestic Shares and 300,000,000 Domestic Shares of the Bank, respectively, representing 17.28%, 8.28%, 6.90%, 5.18% and 5.18% of the Bank's total share capital, respectively.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Basic Information of Directors, Supervisors and Senior Management as at the Latest Practicable Date

Name	Age	Position
Mr. ZHANG Qiyang (張啟陽)	53	Executive Director, Chairman of the Board
Mr. ZHANG Qiang (張強) <sup>Note 1, Note 3</sup>	54	Executive Director, President
Mr. WANG Yigong (王亦工)	51	Executive Director, Vice President and chief risk officer
Mr. WU Gang (吳剛)	47	Executive Director, Vice President
Mr. QIU Huofa (邱火發) <sup>Note 2</sup>	57	Non-executive Director, Vice Chairman of the Board
Mr. LIU Yanxue (劉彥學) <sup>Note 3</sup>	52	Non-executive Director
Mr. LI Jianwei (李建偉)	57	Non-executive Director
Mr. LI Yuguo (李玉國)	63	Non-executive Director
Mr. YUEN Wing Shing (袁永誠) <sup>Note 3</sup>	71	Non-executive Director
Mr. ZHAO Weiqing (趙偉卿)	58	Non-executive Director
Mr. NI Guoju (倪國巨) <sup>Note 3</sup>	63	Independent Non-executive Director
Mr. JIANG Ce (姜策) <sup>Note 3</sup>	57	Independent Non-executive Director
Mr. TAI Kwok Leung, Alexander (戴國良) <sup>Note 3</sup>	60	Independent Non-executive Director
Mr. XING Tiancai (邢天才) <sup>Note 3</sup>	56	Independent Non-executive Director
Mr. LI Jinyi (李進一) <sup>Note 3</sup>	54	Independent Non-executive Director
Mr. YANG Lin (楊林)	57	Employee Representative Supervisor, Chairman of the Board of Supervisors
Mr. HAN Xuefeng (韓學豐)	47	Employee Representative Supervisor, Vice Chairman of the Board of Supervisors
Mr. SHI Yang (石陽)	52	Employee Representative Supervisor
Mr. PAN Wenge (潘文戈)	51	Shareholder Representative Supervisor
Mr. LIU Huidi (劉惠弟)	57	Shareholder Representative Supervisor
Mr. YU Haobo (于浩波)	53	Shareholder Representative Supervisor
Mr. BA Junyu (巴俊宇)	62	External Supervisor
Mr. SUN Hang (孫航)	51	External Supervisor
Mr. DAI Qiang (戴強)	51	External Supervisor
Mr. SUN Yongsheng (孫永生)	57	Vice President
Mr. ZHOU Zhi (周峙)	49	Secretary of the Board
Mr. ZHANG Yi (張翼)	47	Chief information officer
Mr. LIU Zhiyan (劉志岩)	58	Chief financial officer

*Note 1* The election of Mr. ZHANG Qiang as the president of the Bank is subject to the ratification of his eligibility by the CBRC.

*Note 2* The election of Mr. Qiu Huofa as the vice chairman of the Board is subject to the ratification of his eligibility by the CBRC.

*Note 3* The election of Mr. ZHANG Qiang, Mr. LIU Yanxue, Mr. YUEN Wing Shing, Mr. NI Guoju, Mr. JIANG Ce, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi as Directors is subject to the ratification of their eligibility by the CBRC.

## **CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

### **1. Changes in Directors**

Due to work arrangement, Ms. YANG Yuhua has resigned from the positions of the non-executive director, member of the nomination and remuneration committee of the Board and member of the strategic development committee of the Board of the Bank, with effect from 2 March 2017.

As approved by the Shareholders at the 2016 annual general meeting of the Bank held on 16 May 2017, Mr. ZHANG Qiyang and Mr. QIU Huofa were elected as an executive Director and a non-executive Director of the Bank, respectively. At the subsequent Board meeting held on 16 May 2017, Mr. ZHANG Qiyang was elected as the chairman of the Board, the vice chairman of the Bank's nomination and remuneration committee and the chairman of the Bank's strategic development committee; Mr. QIU Huofa was elected as a member of the Bank's nomination and remuneration committee and a member of the Bank's strategic development committee. The CBRC Liaoning Bureau has ratified the eligibility of Mr. ZHANG Qiyang and Mr. Qiu Huofa as Directors of the Bank, and their terms of office commenced from 9 June 2017 and 11 August 2017, respectively.

The term of office of the fifth session of the Board has expired. Mr. WANG Chunsheng and Mr. SUN Yongsheng did not offer themselves for re-election as executive Directors; Mr. LIU Xinfu did not offer himself for re-election as non-executive Director; and Mr. YU Yongshun, Mr. LAU Chi Pang, Mr. BA Junyu, Mr. SUN Hang and Mr. DING Jiming did not offer themselves for re-election as independent non-executive Directors.

At the 2018 first extraordinary general meeting of the Bank held on 28 February 2018, Shareholders have approved the composition of the sixth session of the Board. Mr. ZHANG Qiyang, Mr. ZHANG Qiang, Mr. WANG Yigong and Mr. WU Gang have been elected as the executive Directors; Mr. QIU Huofa, Mr. LIU Yanxue, Mr. LI Jianwei, Mr. LI Yuguo, Mr. YUEN Wing Shing and Mr. ZHAO Weiqing have been elected as the non-executive Directors; and Mr. NI Guoju, Mr. JIANG Ce, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi have been elected as the independent non-executive Directors. The Board has further resolved that Mr. ZHANG Qiyang and Mr. QIU Huofa have been elected as the chairman and vice chairman of the Board, respectively.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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The committees of the sixth session of the Board have also been elected. The audit committee will consist of five Directors, including Mr. TAI Kwok Leung, Alexander as the chairman, Mr. LIU Yanxue as the vice chairman, and Mr. LI Jianwei, Mr. JIANG Ce and Mr. LI Jinyi as members. The nomination and remuneration committee will consist of five Directors, including Mr. XING Tiancai as the chairman, Mr. ZHANG Qiyang as the vice chairman, and Mr. QIU Huofa, Mr. JIANG Ce and Mr. LI Jinyi as members. The strategic development committee will consist of five Directors, including Mr. ZHANG Qiyang as the chairman, Mr. QIU Huofa as the vice chairman, and Mr. ZHANG Qiang, Mr. ZHAO Weiqing and Mr. XING Tiancai as members. The related party transactions control committee will consist of five Directors, including Mr. NI Guoju as the chairman, Mr. WANG Yigong as the vice chairman, and Mr. YUEN Wing Shing, Mr. TAI Kwok Leung, Alexander and Mr. XING Tiancai as members. The risk control and consumers' rights protection committee will consist of five Directors, including Mr. LI Jinyi as the chairman, Mr. ZHANG Qiang as the vice chairman, and Mr. WU Gang, Mr. LI Yuguo and Mr. NI Guoju as members.

The election of Mr. ZHANG Qiang, Mr. LIU Yanxue, Mr. YUEN Wing Shing, Mr. NI Guoju, Mr. JIANG Ce, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi as directors is subject to the ratification of their eligibility by the CBRC. Accordingly, their terms of office as directors will commence upon the ratification of their eligibility by the CBRC and end upon the termination of the current session of the Board. The election of Mr. QIU Huofa as the vice chairman of the Board is subject to the ratification of his eligibility by the CBRC. Accordingly, his term of office as the vice chairman of the Board will commence upon the ratification of his eligibility by the CBRC and end upon the termination of the current session of the Board. According to the Listing Rules and the Articles of Association, the number of independent non-executive Directors shall be no less than one third of the total number of Directors. As such, before the eligibility of the independent non-executive Directors of the sixth session of the Board, namely Mr. NI Guoju, Mr. JIANG Ce, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi, is ratified by the CBRC, the independent non-executive Directors of the fifth session of the Board, namely Mr. YU Yongshun, Mr. LAU Chi Pang, Mr. BA Junyu, Mr. SUN Hang and Mr. DING Jiming, will continue performing their duties as Directors and members of relevant committees of the Board.

### **2. Changes in Supervisors**

The term of office of the fifth session of the Supervisory Board has expired. Mr. CHEN Zhaogui and Ms. SUN Yi did not offer themselves for re-election as Shareholder representative Supervisors; and Mr. HUANG Liangkuai, Mr. ZHOU Zheren and Mr. WEN Zhaoye did not offer themselves for re-election as external Supervisors.

Shareholders have approved at the 2018 first extraordinary general meeting of the Bank held on 28 February 2018 the shareholder representative Supervisors and the external Supervisors of the sixth session of the Board of Supervisors, with Mr. PAN Wenge, Mr. LIU Huidi and Mr. YU Haobo as the shareholder representative Supervisors, and Mr. BA Junyu, Mr. SUN Hang and Mr. DAI Qiang as the external supervisors.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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As explained above, as Mr. BA Junyu and Mr. SUN Hang will continue performing their duties as Directors and therefore cannot take up their roles as external Supervisors, the Supervisors of the fifth session of the Board of Supervisors, namely, Mr. HUANG Liangkuai, Mr. ZHOU Zheren and Mr. WEN Zhaoye will continue performing their duties as Supervisors.

### 3. Changes in Senior Management

The Board has resolved that Mr. ZHANG Qiang has been elected as the president of the Bank. The appointment of Mr. ZHANG Qiang as the president of the Bank is subject to the ratification of his eligibility by the CBRC. Accordingly, his terms of office as the president will commence upon the ratification of his eligibility by the CBRC and end upon the termination of the current session of the Board.

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. Biographies of Directors

#### *Executive Directors*

**Mr. ZHANG Qiyang (張啟陽)**, aged 53, has been serving as an executive Director and the chairman of the Board of the Bank since May 2017. From December 2013 to February 2017, Mr. Zhang was the Party committee secretary and the president of the Shenyang branch of the People's Bank of China (the "PBOC") and the chief of the Liaoning branch of the State Administration of Foreign Exchange (the "SAFE"). From June 2010 to December 2013, he served as the Party committee secretary and the president of the Changchun central sub-branch of the PBOC and the chief of the Jilin branch of the SAFE. From January 1999 to June 2010, he served successively as the Party committee member, Party committee secretary, vice-president and president of the Dalian central sub-branch of the PBOC. From September 2003 to June 2010, he also served as the chief of the Dalian branch of the SAFE. From April 1994 to January 1999, he successively served as the deputy office director, office director, Party leadership group member and vice president of the Dalian branch of the PBOC. From November 1996 to January 1999, he also served as the deputy chief of the Dalian branch of the SAFE. From April 1991 to April 1992, he served as the director assistant of Dalian Credit Rating Committee Assessment Firm (大連市信譽評級委員會評信事務所). From April 1992 to April 1994, he served as the deputy director of Dalian Credit Rating Committee Firm (大連市信譽評級委員會事務所). From August 1988 to April 1991, he was employed by the credit rating firm under the Dalian branch of the PBOC.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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Mr. Zhang received a bachelor degree from Dongbei University of Finance and Economics in July 1986. Later in January 2007, he completed a postgraduate course majoring in finance and received a doctoral degree of economics from Dongbei University of Finance and Economics. He obtained the senior economist title in October 2001. He served as a deputy to the fourteenth People's Congress of Dalian from July 2007 to October 2010 and was elected as a deputy to the twelfth National People's Congress in 2013.

**Mr. ZHANG Qiang (張強)**, aged 54, served as the president and executive Director of the Bank since February 2018. Mr. Zhang served as the vice president and member of party committee of the head office of CITIC Bank from February 2010 to January 2018. From April 2006 to February 2010, he served as the assistant to president and member of party committee of the Head Office of CITIC Bank. From March 2000 to April 2006, he served as the executive deputy general manager and general manager (secretary of the party committee) of the Business Department of the Head Office of CITIC Bank (Beijing Branch). From March 1998 to March 2000, he served as the vice president of Qingdao Branch and president (secretary of the party committee) of Jinan Branch of CITIC Bank. From June 1990 to March 1998, he served as the section chief, deputy general manager and general manager of the Credit Department of the Head Office of CITIC Bank. From August 1987 to June 1990, Mr. Zhang served as the manager of fund credit department of China Huacheng Finance Company. From August 1986 to August 1987, Mr. Zhang joined the central government lecturers group to go to western Hubei to support education. From July 1983 to August 1986, Mr. Zhang served as a cadre of the planning department of the State Ministry of Textile Industry. From April 2014 to January 2018, Mr. Zhang also served as the chairman of CNCB (Hong Kong) Investment Limited, the chairman of CNCB (Hong Kong) Capital Limited and a director of China CITIC Bank International concurrently.

Mr. Zhang graduated from Zhongnan University of Finance and Economics with a bachelor's degree in July 1983 and obtained a master's degree in finance from Liaoning University in June 1999. He obtained the senior economist title in September 1996.

**Mr. WANG Yigong (王亦工)**, aged 51, has been serving as an executive Director of the Bank since August 2013 and vice president and chief risk officer of the Bank since January 2013. Mr. Wang held the position of general manager of the credit and loan management department of the Bank from January 2006 to January 2013. He then served as president of our Zhenghao Sub-branch from February 2002 to January 2006, during which he also worked as president of our Liaoshen Sub-branch from February 2002 to February 2003. From January 2001 to February 2002, he worked as (managing) vice president of our Liaoshen Sub-branch. He served as deputy general manager of the asset security department of the Bank from June 1998 to January 2001. He successively worked as a cashier, a credit clerk and deputy head of credit office at the Tiexi Office of Industrial and Commercial Bank of China in Shenyang from December 1984 to June 1998.

Mr. Wang graduated from The Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in November 2002, majoring in finance. He has been an economist as accredited by the PRC Ministry of Personnel since June 1995. He has obtained the "Shenyang May 1 Labor Medal" by Shenyang General Labor Union in April 2015.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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**Mr. Wu Gang (吳剛)**, aged 47, has been serving as an executive Director of the Bank since May 2014, and the vice president of the Bank in January 2013. He also served as the president of the Beijing branch for the Bank from August 2009 to August 2016. Mr. Wu worked as deputy director of the preparatory office of Shenyang business operation department of the Bank from January 2009 to August 2009. From January 2007 to January 2009, he successively held the positions of president of the Yaming Sub-branch and president of the Shenhe Sub-branch of the Bank. From February 2003 to January 2007, he successively served as (managing) vice president and president of the Taishan Sub-branch of the Bank. From February 2001 to February 2003, he successively worked as assistant to general manager and deputy general manager of the asset security department of the Bank. From May 1998 to February 2001, he worked as assistant to president of the Nanhu Sub-branch of the Bank. From June 1989 to May 1998, Mr. Wu served as a staff member at the Shenhe City Credit Cooperative of Shenyang Cooperative Bank and the Nanhu Sub-branch of the Bank (including its predecessor).

Mr. Wu graduated from the Open University of China (previously known as Central Radio and TV University) (Beijing, the PRC) in June 2003, majoring in finance, and obtained the Master of Business Administration of Senior Management from Renmin University of China in June 2015. He has been an economist as accredited by the Personnel Office of Liaoning Province since November 1997.

### ***Non-executive Directors***

**Mr. QIU Huofa (邱火發)**, aged 57, has been serving as a non-executive Director of the Bank since May 2017. Mr. Qiu has also been the executive vice president of Evergrande Group and the board chairman of Evergrande Finance Group since June 2016. From April 2001 to June 2016, he held various posts in different offices of China Everbright Bank. From September 2010 to June 2016, he successively served as the president assistant, vice president and Party committee member of its head office as well as the president and Party committee secretary of its Beijing branch. From August 2007 to September 2010, he served as the president and Party committee secretary of its Beijing branch. From November 2006 to August 2007, he served as the head of the business department and Party committee secretary of its head office. From April 2001 to November 2006, he served as the president and Party committee secretary of its Guangzhou branch. From December 1987 to April 2001, he held various posts in different offices of Bank of Communications. From March 2000 to April 2001, he served as the president and Party leadership group secretary of its Changsha branch. From December 1987 to March 2000, he successively served as the section chief of the credit department, head of a local office and deputy director of its Wuhan branch; president of its Wuchang sub-branch; and the vice president and Party leadership group member of its Wuhan branch.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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Mr. Qiu graduated from Shijiazhuang Army Academy majoring in infantry commanding in September 1981 and received a master degree majoring in finance from Zhongnan University of Economics and Law in June 2000. He obtained the senior economist title in December 1998. He was awarded the “National May Day Medal for Finance Industry” and “National May Day Medal” in 2010 and 2011, respectively. In addition, he previously served as the deputy to the ninth National Party Congress from Guangdong and a deputy to the fifteenth People’s Congress of Xicheng District, Beijing.

**Mr. LIU Yanxue (劉彥學)**, aged 52, elected as a non-executive Director of the Bank in February 2018, has been serving as the Party committee secretary of the Bank since August 2016. From February 2013 to October 2016, he served as the Party committee deputy secretary, Party committee secretary and director of the State-owned Assets Supervision and Administration Commission of Shenyang Municipal Government. From May 2011 to February 2013, he served as the deputy secretary-general of Shenyang Municipal Government. From May 2008 to May 2011, he was the deputy director of the Management Committee of Shenyang National High Technology Industry Base for Civil Aviation Industry (瀋陽民用航空產業國家高技術產業基地管委會). From May 2003 to May 2008, he served as the deputy director of Shenyang Economic and Trade Committee (瀋陽市經濟貿易委員會). From April 2001 to August 2004, he was the deputy director and director, successively, of Shenyang Automobile Industry Development Office (瀋陽市汽車產業發展辦公室). From May 1995 to April 2001, Mr. Liu served successively as the deputy chief clerk and deputy director in Shenyang Economic and Trade Commission and the deputy director and director of Central Direct Enterprise Office. From November 1992 to May 1995, Mr. Liu worked in Shenyang Economic Commission.

Mr. Liu graduated from Baotou Iron and Steel Institute (包頭鋼鐵學院) majoring in metallurgical and mechanical in August 1989 and completed an investment management graduate programme organised by Chinese Academy of Social Sciences (中國社會科學院) in November 1998. He obtained a doctoral degree in materials processing engineering from Shenyang University of Technology (瀋陽工業大學) in April 2008.

**Mr. LI Jianwei (李建偉)**, aged 57, has been serving as a non-executive Director of the Bank since June 2006. He has been the chairman of the board and general manager of Shenyang Hengxin since July 2004, and deputy general manager of Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司) since July 2013. Prior to that, he successively worked as chief of the asset revenues (property rights) division at Shenyang Finance Bureau from December 2001 to July 2004, deputy chief of the administrative affairs and resources division and chief of capital operation division at Shenyang State-owned Assets Supervision and Administration Commission from March 1994 to December 2001, and principal staff and deputy chief of the accounting division at Shenyang Finance Bureau from March 1985 to March 1994.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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Mr. Li graduated from Liaoning University (Liaoning, PRC) in December 1991, majoring in industrial enterprise management, and received a master's degree in philosophy of Marxism from Liaoning University (Liaoning, PRC) in June 2000. He has been a non-practising member of Liaoning Public Certified Accountants Association since December 2009.

**Mr. LI Yuguo (李玉國)**, aged 63, has been serving as a non-executive Director of the Bank since July 2013 and the vice chairman of the Board since June 2014. He has been the chairman of Huibao International since June 2013 and the chairman of Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司) since May 1993. Prior to that, he successively worked at the planning bureau of the China Association for Science and Technology (中國科學技術協會) as principal staff, deputy chief and chief of the accounting division from August 1983 to October 1992. Mr. Li has been the board chairman of Asia Resources Holdings Limited (listed on the Hong Kong Stock Exchange; stock code: 899) since August 2017.

Mr. Li graduated from Jiangxi University of Finance and Economics (formerly known as Jiangxi Institute of Finance and Economics (江西財經學院)) (Jiangxi, PRC) in July 1983, majoring in industrial accounting.

**Mr. YUEN Wing Shing (袁永誠)**, aged 71, elected as a non-executive Director of the Bank in February 2018, has been a Director of The Cross-Harbour (Holdings) Limited (listed on the Hong Kong Stock Exchange; stock code: 32) since March 2001 and also serves as a member of the executive committee of the said company as well as directors of several affiliated companies of the said company. Previously, he held senior management positions with a major bank in Hong Kong for over 20 years. He is also a director and a managing director of Yugang International Limited (listed on the Hong Kong Stock Exchange; stock code: 613), an executive director of Y. T. Realty Group Limited (listed on the Hong Kong Stock Exchange; stock code: 75), and directors of Yugang International (BVI) Limited and Funrise Limited.

Mr. Yuen obtained a diploma in management studies from The Hong Kong Polytechnic University in 1986.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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**Mr. ZHAO Weiqing (趙偉卿)**, aged 58, has been appointed as a non-executive Director of the Bank since May 2014. He also served as our shareholders representative Supervisor from March 2008 to May 2014. He has been the president and a director of Xinhua Zhongbao since October 2009 and the vice chairman of the board of Xinhua Zhongbao from October 2009 to November 2015 and was the vice president of Xinhua Zhongbao from May 2007 to October 2009. He has been the general manager of Shenyang Xinhua Real Estate Development Co., Ltd. (瀋陽新湖房地產開發有限公司) since September 2002 and served as the executive deputy manager of Zhejiang Xinhua Real Estate Group Co., Ltd. (浙江新湖房地產集團有限公司) from October 1998 to September 2002. He worked as a teacher and director of the training department at Zhejiang Provincial Government School of the Chinese Communist Party (中共浙江省省級機關黨校) from July 1986 to October 1998.

Mr. Zhao graduated from Hangzhou Normal University (formerly known as Hangzhou Normal College (杭州師範學院)) (Zhejiang, PRC) in August 1980, majoring in physics, and graduated from the Party School of the Zhejiang Committee of the Chinese Communist Party (中共浙江省委黨校) (Zhejiang, PRC), majoring in political economics in July 1986. He has been accredited as a lecturer by the Teachers' Qualification Accreditation Committee of Chinese Communist Party Zhejiang Provincial Committee (中共浙江省委教師職務評審委員會) since March 1991.

### ***Independent Non-executive Directors***

**Mr. NI Guoju (倪國巨)**, aged 63, was elected as an independent non-executive Director of the Bank in February 2018. Mr. Ni served as the Party committee secretary of the Management School of Wuhan University of Science and Technology from March 2009 to April 2014. From January 2007 to March 2009, Mr. Ni served as the Party committee secretary of the Continuing Education School of Wuhan University of Science and Technology. From October 2005 to January 2007, Mr. Ni served as the director of the Department of Infrastructure of Wuhan University of Science and Technology. From December 1997 to October 2005, he served as the general manager of the Technology and Development Company of Wuhan University of Science and Technology. From July 1978 to December 1997, he successively served as the assistant lecturer and lecturer of the Metallurgy School, deputy secretary of the Party branch, the Party committee secretary and deputy director of the Department of Moral Education of Wuhan Iron and Steel Institute (武漢鋼鐵學院) (renamed as Wuhan University of Science and Technology in 1995).

Mr. Ni completed a studies in metallic materials and heat treatment in Wuhan Iron and Steel Institute in July 1978.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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**Mr. JIANG Ce (姜策)**, aged 57, elected as an independent non-executive Director of the Bank in February 2018, has been serving as the managing director of SZCE Ronghe Investment Co., Ltd. (深圳市建融合投資有限公司) since January 2016. From October 2002 to December 2015, he served as an executive director of Hong Kong Sun Asset Management Limited (香港陽光資本管理有限公司). From December 1998 to September 2002, he served as an executive director of Hong Kong Concord Capital Securities Limited (香港協和證券有限公司). From July 1983 to December 1998, he served positions at the Finance Department and Investment Department of China Everbright Industrial Corporation (中國光大實業總公司).

Mr. Jiang obtained a bachelor's degree in applied mathematical statistics specialization awarded by Shanghai University of Finance and Economics (上海財經大學) in July 1983.

**Mr. TAI Kwok Leung, Alexander (戴國良)**, aged 60, elected as an independent non-executive Director of the Bank in February 2018, is a partner of VMS Securities Limited. Mr. Tai previously was a managing director and the head of Corporate Finance Department of Investec Capital Asia Limited. Mr. Tai is licensed under the Securities and Futures Ordinance to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Mr. Tai is an independent non-executive director of Anhui Conch Cement Company Limited (stock code: 914), Luk Fook Holdings (International) Limited (stock code: 590), Jiayuan International Group Limited (stock code: 2768) and G & M Holdings Limited (stock code: 6038), which are all listed on the Stock Exchange of Hong Kong.

Mr. Tai graduated from the Victoria University of Wellington in New Zealand and obtained a bachelor degree in Commerce and Administration in 1982. He is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

**Mr. XING Tiancai (邢天才)**, aged 56, elected as an independent non-executive Director of the Bank in February 2018, has been serving as the dean of the Graduate School of Dongbei University of Finance and Economics (東北財經大學) since May 2017. From December 2016 to May 2017, he served as the head of Development Planning and Disciplinary Construction Department of Dongbei University of Finance and Economics. From December 2006 to December 2016, he served as the dean of the School of Finance of Dongbei University of Finance and Economics. From September 1999 to December 2006, he served as the dean of the Vocational Technical School of Dongbei University of Finance and Economics. From August 1986 to August 1999, he served as deputy director of the research section under the School of Investments, deputy director of the Graduate Department, head of Higher Education Research successively at Dongbei University of Finance and Economics.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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Mr. Xing obtained a bachelor's degree in economics from Liaoning Institute of Finance and Economics (遼寧財經學院) in July 1984 and a master's degree in Economics and a doctoral degree in economics from Dongbei University of Finance and Economics in September 1987 and April 2003, respectively. He was elected as a professor in December 2000. He was awarded the title of "Excellent Expert" by the Dalian Municipal People's Government in 2013 and was granted the "May 1" Labour Medal of Liaoning Province in 2015.

**Mr. LI Jinyi (李進一)**, aged 54, elected as an independent non-executive Director of the Bank in February 2018, has been serving as a lecturer at the School of Economics and subsequently an associate professor at the Management School of Jinan University (暨南大學) since April 1991. He has been a part-time lawyer at Guangdong Shenglun Law Firm since 2018. From 2002 to 2018, he was a part-time lawyer at Guangdong Xindesheng Law Firm. From 1996 to 2002, he was a part-time lawyer at Guangdong Jinan Law Firm. He is currently an independent director of Guangdong Aofei Data Technology Co., Ltd. (listed on the Shenzhen Stock Exchange; stock code: 300378), Guangzhou Haige Communications Group Incorporated Company (listed on the Shenzhen Stock Exchange; stock code: 002465), Sotech Smarter Equipment Co., Ltd. (listed on the Shenzhen Stock Exchange; stock code: 300173) and Comefly Outdoor Co., Ltd. (listed on the Shanghai Stock Exchange; stock code: 603908). From June 2006 to June 2012, he served as an independent director of GRG Banking Equipment Co., Ltd. (listed on the Shenzhen Stock Exchange; stock code: 002152).

Mr. Li obtained his bachelor degree and master degree in law from Southwest University of Political Science & Law (西南政法大學) in July 1985 and January 1991, respectively. He was elected as an associate professor in December 1998.

### 2. Biographies of Supervisors

#### *Employee Representative Supervisors*

**Mr. YANG Lin (楊林)**, aged 57, has been an employee representative Supervisor since February 2008 and chairman of our Board of Supervisors since March 2008.

Mr. Yang joined the Shenhe Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in March 1987 and has held a number of positions in our Bank since then. From March 1987 to February 2002, he successively worked as a credit clerk of the Shenhe Credit Cooperative and vice president of the Baogong Credit Cooperative of Shenyang Cooperative Bank, deputy director of business department and deputy chief of the credit and loan division of Shenyang Cooperative Bank, (managing) deputy general manager and general manager of the asset security department of the Bank. From February 2002 to March 2008, he served as a vice president of the Bank.

Mr. Yang graduated from the Party School of the Shenyang Committee of the Chinese Communist Party (中共瀋陽市委黨校) (Liaoning, PRC) in May 1997, majoring in finance and accounting, and graduated from Jilin Polytechnical University (吉林工業大學) (Jilin, PRC) in November 2000, majoring in business administration. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since September 2001.

**Mr. HAN Xuefeng (韓學豐)**, aged 47, has been an employee representative Supervisor since May 2010, and vice chairman of our Board of Supervisors since June 2014. He has been the Party secretary and the president of Tianjin Branch of the Bank since January 2018.

Mr. Han joined the Huashan Sub-branch of the Bank in September 1997 and has held a number of positions in the Bank since then. From September 1997 to January 1998, he successively worked as deputy director of the office and manager of the market development department of the Huashan Sub-branch of the Bank. From January 1998 to October 2009, he successively worked at our Bank as secretary to the president's office, chief of the secretarial section, assistant to director of the discipline supervision and inspection office, deputy director of the discipline supervision and inspection office, and deputy director of the president's office. From October 2009 to January 2012, he successively served as managing deputy director of the inspection office, director of the president's office and first deputy chief of the party committee department at the Bank. From January 2012 to November 2016, he was the deputy secretary of the discipline committee, head of the party committee department, head of the human resource department, and vice general controller. From November 2016 to January 2018, he was the Party secretary and the president of Anshan Branch of the Bank.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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Mr. Han graduated from Liaoning University (Liaoning, PRC) in July 2004 (correspondence education), majoring in law. He has been a senior administrative officer (高級政工師) as accredited by the Leading Work Group Office of Appraisal for the Professionalism of Ideological and Political Officers of Enterprises in Liaoning Province (遼寧省企業思想政治工作人員專業職務評定工作領導小組辦公室) since July 2012.

**Mr. SHI Yang (石陽)**, aged 52, has been an employee representative Supervisor since June 2014. He has also served as the president of our Shenyang Branch since January 2015 and secretary to the party committee of our Shenyang Branch since July 2015.

He joined the Huigong Credit Cooperative, one of our predecessors, in March 1987 and has held a number of positions in our Bank (including its predecessors) since then. From March 1987 to April 1992, he successively worked as a credit clerk of the Huigong Credit Cooperative and a credit clerk at the credit and loan division of the headquarters. From April 1992 to February 2000, he served as vice president of our Tiexi Sub-branch. From February 2000 to January 2003, he held the positions of assistant to the president and vice president of our Yuanlu Sub-branch. From January 2003 to July 2008, he served as vice president of our Yuhong Sub-branch. From July 2008 to January 2015, he successively worked as the president of Yuhong Sub-branch, the vice president of Shenyang Branch and the president of Dandong Branch of the Bank. From January 2014 to September 2014, he served concurrently as the director of Preparatory Office of Dandong Branch, and from January 2015 to July 2015 acted as the deputy secretary to the party committee of Shenyang Branch of the Bank.

Mr. Shi graduated from the Party School of the Liaoning Committee of the Chinese Communist Party (中共遼寧省委黨校) (Liaoning, PRC) in March 1997, majoring in economic management, and obtained a diploma of post-graduation study in political economics from Northeast Normal University (Liaoning, PRC) in December 2000. He has been a senior economist as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2009.

### ***Shareholder Representative Supervisors***

**Mr. PAN Wenge (潘文戈)**, aged 51, a Shareholder representative Supervisor since May 2014, has been the chief financial officer of Luenmei Holding Co., Ltd. (聯美控股股份有限公司, listed on the Shanghai Stock Exchange; stock code: 600167) since November 2009. Prior to that, he held the position of deputy chief financial officer at Luenmei (China) Investment Co., Ltd. (聯美(中國)投資有限公司) from May 2007 to November 2009. From May 2000 to May 2007, he worked at Huaxia Bank, where he successively served as deputy general manager of the financing center of Shenyang branch, general manager of the business department of Shenyang branch, president of Shenyang Beizhan sub-branch and Shenyang Zhongshan Square Sub-branch.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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Mr. Pan graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 1988, majoring in finance and accounting, and a master's degree in applied psychology from Liaoning Normal University (Liaoning, PRC) in July 2002. He has been an accountant as accredited by the Personnel Office of Liaoning Province since October 1994.

**Mr. LIU Huidi (劉惠弟)**, aged 57, a Shareholder representative Supervisor since February 2018, has been serving as the president of Shanghai Changxin (Group) Co., Ltd. (上海昌鑫(集團)有限公司), an executive director of Shenyang Changxin Property Investment Co., Ltd. (瀋陽昌鑫置業投資有限公司) and director of Shanghai Baoshan Village Bank (上海寶山富民村鎮銀行) since October 1997, August 2006 and September 2011, respectively. From January 2004 to May 2015, he concurrently served as the general manager of Shanghai Juying Property Development Co., Ltd. (上海聚英房地產開發有限公司). From March 1981 to October 1997, he served as a section officer and section chief of the Department of Finance Shanghai No. 5 Steel (Group) Co., Ltd. of Baosteel Group (寶鋼集團上海五鋼(集團)有限公司).

Mr. Liu graduated from the finance and accounting studies awarded by Shanghai College of Metallurgy Industry (上海市冶金工業學校) in March 1981 and completed the industrial accounting studies of Shanghai Television University (上海電視大學) in July 1986. He is a qualified accountant and the qualification was conferred by Shanghai Metallurgical Industry Bureau (上海市冶金工業局) in December 1991.

**Mr. Yu Haobo (于浩波)**, aged 53, a Shareholder representative Supervisor since February 2018, has been serving as the chairman of the board of Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司) and general manager of Liaoning Xiangge Weilan Property Development Co., Ltd. (遼寧香格蔚藍房地產開發有限公司) since December 1995. From March 2008 to March 2014, he was a Shareholder representative Supervisor of the Bank. From December 1995 to August 2000, he served as the general manager of Shenyang Dayang Business and Industrial Co., Ltd. (瀋陽大洋商務實業有限公司).

Mr. Yu completed a master's degree in systems engineering awarded by Tianjin University in December 1993. He is a qualified senior engineer and the qualification was conferred by the Personnel Department of Liaoning Province (遼寧省人事廳) in December 2003.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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### *External Supervisors*

**Mr. BA Junyu (巴俊宇)**, aged 62, elected as an external Supervisor in February 2018, has been appointed as an independent non-executive Director of the Bank since June 2010. Mr. Ba has been a professor at Shenyang Ligong University (瀋陽理工大學) since September 2001, and served as principal, professor and researcher of the social economy research institute of Shenyang Ligong University from September 2001 to May 2009. He serves as a professor at the ideological and political theory teaching and research department of Shenyang Ligong University since May 2009. Prior to that, he served as an associate professor and the head of the economic research institute at Shenyang University from April 1996 to August 2003. From August 1985 to April 1996, he served as a vice dean, deputy principal and associate professor of the market economy research institute at Shenyang Institute of Finance and Economics. He used to work at the teaching and research office at Shenyang Accounting School (瀋陽市財會學校) as deputy director, director and lecturer from August 1982 to August 1985.

Mr. Ba graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 1982, majoring in commercial enterprise management. He has been a researcher as accredited by the Personnel Office of Liaoning Province since August 2008.

**Mr. SUN Hang (孫航)**, aged 51, elected as an external Supervisor in February 2018, has been appointed as an independent non-executive Director of the Bank since May 2014. He has been the director of the Enterprise Management Research Centre of Liaoning Academy of Social Sciences since March 2016. Prior to that, he served as the principal of the Human Resources Research Institute of Liaoning Academy of Social Sciences from April 2007 to March 2016, the general manager at Shenyang Yuhuang Health Products Co., Ltd. (瀋陽玉皇保健品有限公司) from March 2002 to April 2007, worked as deputy principal of the Applied Technology Research Institute of Chinese Academy of Management Science (中國管理科學研究院) from March 1998 to March 2002, and was a deputy director staff at the enterprise department of Changchun Industry and Commerce Association and manager of Xunda Motorcycle Co., Ltd. (迅達摩托車公司) from October 1988 to March 1998.

Mr. Sun graduated from Anhui University of Finance & Economics (formerly known as Anhui Institute of Finance & Economics) (安徽財貿學院) (Anhui, PRC) in July 1988, majoring in merchandising. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since December 2001, and a researcher as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2011.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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**Mr. DAI Qiang (戴強)**, aged 51, elected as an external Supervisor in February 2018, has been serving as the Party committee secretary of Liaoning branch company of Sinosafe Insurance (華安保險遼寧分公司) since October 2017. From March 2004 to October 2017, he served as the deputy general manager, senior underwriting officer and general manager of several branch companies of Sinosafe Insurance from March 2004 to October 2017. From January 2001 to March 2004, he served as the assistant to general manager and chief underwriting officer of Dalian branch company of Sinosafe Insurance. From August 1991 to 2001, he served as the manager, manager of the Department of International Business and manager of the Department of Customer Service of the branch companies of China Ping An Insurance Company (中國平安保險公司).

He graduated from Dongbei University of Finance and Economics with a bachelor's degree in materials economics in July 1988 and completed an on-the-job graduate programme of finance studies organised by Dongbei University of Finance and Economics in July 2007. He was conferred with the title of economist by China Ping An Insurance Company in September 1995.

### 3. Biographies of Senior Management

For the biography of Mr. ZHANG Qiang (張強), please refer to “Directors, Supervisors, Senior Management and Employees – Biographies of Directors”.

For the biography of Mr. WANG Yigong (王亦工), please refer to “Directors, Supervisors, Senior Management and Employees – Biographies of Directors”.

For the biography of Mr. WU Gang (吳剛), please refer to “Directors, Supervisors, Senior Management and Employees – Biographies of Directors”.

**Mr. SUN Yongsheng (孫永生)**, aged 57, was appointed as the vice president of the Bank in June 2014 and served as an executive Director of the Bank from October 2015 to February 2018. He served as the director of the president's office from January 2014 to January 2017. Mr. Sun has over 20 years of experience in banking business operation and management. He joined the Huashan Sub-branch of the Bank in September 1997. From September 1997 to July 2006, he successively served as president of the Huashan Sub-branch of the Bank and president of the Bank's Binhe Sub-branch. He held the positions of general manager of the business department and (managing) deputy general manager of Shenyang operation and administration department of the Bank from July 2006 to February 2012, during which he also worked as president of the Bank's Shenhe Sub-branch from January 2010 to February 2012. From February 2012 to January 2013, he served as director of the president's office and director of the board's office at the Bank. From January 2013 to January 2014, he worked as president of the Bank's Shanghai Branch. From January 2014 to July 2014, he served as general manager of the retail business department of the Bank. From January 2014 to January 2015, he served as the managing vice chairman of the labor union of the Bank. Prior to joining the Bank, he worked successively as an administrative accountant, deputy chief of the general affairs division, chief of the accounting division at Liaoning Financial Vocational College (遼寧金融職業學院, formerly known as 遼寧省金融職工大學) and general manager of Shenyang Huashan Credit Cooperative from August 1983 to August 1997.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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Mr. Sun graduated from Liaoning University (Liaoning, PRC) in June 2000, majoring in administrative management, and obtained a diploma of post-graduate study in political economics from Dongbei Normal University (Jilin, PRC) in July 2002. He has been a senior accountant as accredited by the Human Resources Department of Liaoning Province since September 2002.

**Mr. ZHOU Zhi (周峙)**, aged 49, has been appointed as the secretary of the Board of the Bank since February 2015. He is primarily in charge of matters relating to our Bank's information disclosure, coordinating investors relationship, and preparing for shareholders' general meetings and Board meetings in accordance with statutory procedures.

Mr. Zhou has over 20 years of experience in banking business operation and management. He joined the Nanhu Sub-branch of Shenyang Cooperative Bank, the Bank's predecessor, in August 1991. From August 1991 to May 1998, Mr. Zhou successively worked as an employee of the securities department and the City Plaza business department and from May 1998 to May 2005 as assistant to the general manager and deputy general manager of the market development department and deputy director of the development strategy research center of the Bank (including its predecessor). From May 2005 to June 2006, Mr. Zhou served as the deputy director in the president's office of the Bank. From June 2006 to January 2015, Mr. Zhou served as the director of the Supervisors' office of the Bank. Mr. Zhou served as the deputy director of the development strategy research center of the Bank from June 2006 to March 2018. Mr. Zhou has served as the director of the strategic development research centre of the Bank since March 2018.

Mr. Zhou obtained a master's degree in business administration from Liaoning University in December 2008. Mr. Zhou has been a senior economist as accredited by Human Resources Department of Liaoning Province since 2003.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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**Mr. ZHANG Yi (張翼)**, aged 47, has been appointed as the chief information officer of the Bank since August 2013 and the general manager of our information technology department since April 2000. He is in charge of our information technology department.

Mr. Zhang has over 25 years of experience and extensive knowledge in information technology industry and financial industry. He joined Shenyang Cooperative Bank, our predecessor, in September 1988, and has held a number of positions at our Bank (including Shenyang Cooperative Bank) since then. From September 1988 to May 1991, he was an office staff member at Shenyang Cooperative Bank. From June 1991 to July 1997, he worked as a staff member and chief of the accounting and computer department at Shenyang Cooperative Bank. From August 1997 to March 2000, he served as deputy (managing) general manager of the information and technology department at our Bank.

Mr. Zhang graduated from Shenyang Ligong University (Liaoning, PRC) in July 2004, majoring in business management, and received a master's degree in software engineering from Dalian University of Technology (Liaoning, PRC) in July 2008. He has been an engineer as accredited by the Human Resources Department of Liaoning Province since September 2003.

**Mr. LIU Zhiyan (劉志岩)**, aged 58, has been appointed as the chief financial officer of the Bank since June 2014, and the general manager of the planning and accounting management department of the Bank since April 2009. He is primarily in charge of our planning and accounting management department. He also served as our Supervisor from September 2010 to May 2014.

Mr. Liu has over 30 years of experience in banking business operation and management. He joined the Heping Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in May 1987. From May 1987 to October 1998, he successively served as deputy director and (managing) deputy chief of the accounting department of the Bank (including the Heping Credit Cooperative of Shenyang Cooperative Bank). From November 1998 to March 2009, he successively held the positions of chief of the accounting department of the Bank, president of our Yinhe Sub-branch, general manager of the credit card center and general manager of the audit department of the Bank. Before joining our Bank, he used to work at Industrial and Commercial Bank of China and served as deputy director of the Beishi local branch, deputy director of the Zhongshan Square local branch and deputy director of Hongxia Credit Cooperative from June 1984 to April 1987.

Mr. Liu graduated from the Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in June 2003, majoring in finance. He has been an accountant as accredited by the Human Resources Department of Liaoning Province since November 1993.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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Save as disclosed above, all our Directors, Supervisors and members of senior management meet the relevant CBRC qualification requirements for their respective positions. For those whose appointments require approval by the CBRC, the approvals have been duly obtained.

### 4. Biographies of Joint Company Secretaries

**Mr. ZHOU Zhi (周峙)**, aged 49, is one of the joint company secretaries of the Bank and was appointed in February 2015. For the biography of Mr. Zhou, please refer to “Directors, Supervisors, Senior Management and Employees – Biographies of Senior Management”.

**Ms. KWONG Yin Ping Yvonne (鄺燕萍)**, aged 62, is one of the joint company secretaries of the Bank and was appointed in June 2014 with her appointment taking effect on the Listing Date.

Ms. Kwong has extensive experience in providing company secretarial and compliance services to numerous private and listed companies. She is a vice president of SW Corporate Services Group Limited, a company focusing on the provision of listing company secretarial and compliance services. She currently serves as the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Kwong received a bachelor’s degree in accounting from Hong Kong Polytechnic University in November 1997. She has been a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators since 2012.

## EMOLUMENT OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE BANK

For details of emolument of Directors, Supervisors and the five highest paid individuals of the Bank, please see notes 9 and 10 to the financial statements.

## **EMPLOYEES, EMPLOYEES' COMPENSATION POLICIES AND TRAINING SCHEMES**

As at 31 December 2017, the Bank had 5,239 employees in total.

The Bank has established a performance-based compensation system whereby an employee's compensation is determined based on position and performance review. The Bank contributes to its employees' social insurance and provides housing funds and certain other employee benefits in accordance with the applicable PRC laws, rules and regulations.

According to our development strategies and training plans, the Bank developed and implemented the annual training plan to support our training and enhance staff professionalism. During the Reporting Period, the Bank integrated the training resources of the head office, branches and sub-branches, arranged various special training programmes such as centralised trainings for new business, new system and new products, trainings for middle- to senior-level management, trainings for specialists, trainings for foundation-level staff and trainings for new joiners. The Bank also strengthened knowledge management and construction of internal lecturer team. The Bank conducted training sessions with total enrolments of 49,553.

# CORPORATE GOVERNANCE REPORT

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The Bank strives to improve the transparency and accountability of its corporate governance and ensure high standards of corporate governance to safeguard shareholders' interests and enhance its enterprise value and commitment.

In 2017, the Bank complied with the relevant laws and regulations in all material respects. The Bank also conducted performance appraisals on the Board, senior management and their members, further upgraded its standards of information disclosure and standardised its work on management of investor relations, to enhance the transparency and corporate governance standards of the Bank.

During the Reporting Period, the Bank complied with the code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules and the Listing Rules governing disclosure of inside information.

Nothing has come to the attention of the Directors to suggest that the Bank was not in compliance with the code provisions set out in the Code during the Reporting Period.

The Bank will continue to review and enhance its corporate governance in order to ensure compliance with the Code and meet the higher expectations of the Shareholders and investors.

## GENERAL MEETING

### Information of General Meetings

In 2017, the Bank held one general meeting, details of which are set out below:

At the 2016 annual general meeting of the Bank held on 16 May 2017, proposals were considered and approved on the matters, mainly including the work report of the Board of Directors for 2016, the work report of the Board of Supervisors for 2016, the final financial accounts for 2016 and financial budget report for 2017, the profit distribution plan for 2016, appointment of auditors for 2017, election of Mr. ZHANG Qiyang as an executive Director, election of Mr. QIU Huofa as a non-executive Director, general mandate to issue new shares, and amendments to the Articles of Association.

The above general meeting was convened in compliance with the procedures as required by the relevant laws and regulations.

### THE BOARD AND SPECIAL COMMITTEES

#### Implementation of Resolutions of General Meetings by the Board

In 2017, the Board implemented the resolutions passed at the general meeting regarding, among other things, the profit distribution plan for 2016, the financial budget for 2017, appointment of auditors and amendments to the Articles of Association.

#### Composition of the Board

As at the date hereof, the Board of the Bank comprises a total of 15 Directors, including four executive Directors, namely, Mr. ZHANG Qiyang, Mr. ZHANG Qiang, Mr. WANG Yigong and Mr. WU Gang; six non-executive Directors, namely, Mr. QIU Huofa, Mr. LIU Yanxue, Mr. LI Jianwei, Mr. LI Yuguo, Mr. YUEN Wing Shing and Mr. ZHAO Weiqing; and five independent non-executive Directors, namely, Mr. NI Guoju, Mr. JIANG Ce, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi. The election of Mr. ZHANG Qiang, Mr. LIU Yanxue, Mr. YUEN Wing Shing, Mr. NI Guoju, Mr. JIANG Ce, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi as Directors is subject to the ratification of their eligibility by the CBRC. Before their eligibility is ratified by the CBRC, the independent non-executive Directors of the fifth session of the Board, namely Mr. YU Yongshun, Mr. LAU Chi Pang, Mr. BA Junyu, Mr. SUN Hang and Mr. DING Jiming, will continue performing their duties as Directors and members of relevant committees of the Board.

The list of Directors (by category of Directors) was disclosed in all corporate communications issued by the Bank in accordance with the Listing Rules.

The Board is responsible for developing the management system of the Bank and monitoring the decisions on business and financial strategies, results and other important matters of the Bank. The Board is accountable to the general meeting. The Board has delegated the powers and duties in relation to management of the Bank to the management. In addition, the Board has also defined respective terms of reference of the audit committee, the nomination and remuneration committee, the strategic development committee, the related party transactions control committee and the risk control and consumers' rights protection committee. Details of such committees are set out in this report.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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The Board is also responsible for performing the corporate governance functions. During the Reporting Period, the Board performed the corporate governance functions in accordance with code provision D.3.1 of the Code.

The Bank has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

### **Financial, Business and Family Relationships between Directors, Supervisors and Senior Management**

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

### **Changes in Directors**

Please refer to "Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management" for details of changes in Directors of the Bank.

### **Operation of the Board**

The Board convenes meetings on a regular basis, including regular meetings at least four times a year and other meetings when necessary. Board meetings may be conducted by way of on-site meetings or written resolutions. The agenda for a regular meeting of the Board is prepared after consulting the Directors, and the Board paper and relevant materials for such meeting are usually circulated to all Directors and Supervisors 14 days prior to the date of such meeting. All Directors maintain communication with the secretary to the Board to ensure compliance with the procedures of Board meetings and all applicable rules and regulations.

Detailed minutes of Board meetings are maintained and are available for all attending Directors for their review, comments and signature after the conclusion of such meetings. The minutes of Board meetings are kept by the secretary to the Board and are available for inspection by Directors at any time. A communication and reporting mechanism has been established among the Board, Directors and senior management of the Bank. The president reports regularly to the Board and is overseen by the Board.

Relevant members of the senior management are invited to participate in Board meetings from time to time to provide explanations and answers to inquiries. Directors can express their opinions freely at Board meetings, and major decisions are made after detailed discussions. A Director must abstain from discussion and voting at a Board meeting on any proposal in which he or she is materially interested, and must not be counted in the quorum for such proposal.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

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The Board has set up an office as its working body, which is responsible for the preparation of general meetings, Board meetings and meetings of the special committees under the Board, information disclosure and other routine matters.

### **Duties and Powers of the Board**

Duties and powers of the Board mainly include, but are not limited to, the following:

- (1) convene and report at general meetings;
- (2) implement the resolutions adopted at general meetings;
- (3) make decisions on the Bank's business plans and investment plans and formulate the Bank's operational development strategies;
- (4) formulate the Bank's annual financial budgets and accounts;
- (5) formulate the Bank's proposals on profit distribution and loss recovery plans;
- (6) formulate proposals on the increase or reduction of the Bank's registered capital and the issuance and listing of bonds and other securities;
- (7) formulate plans for significant acquisitions, purchase of the Bank's Shares, or merger, division or dissolution or other change to the form of the Bank;
- (8) decide on matters within the scope authorised at general meetings, including major external investments, asset acquisition and sales, pledge of assets, external guarantee, trust management and related transactions;
- (9) decide on the establishment of the Bank's internal management departments and overseas branch office which is not a legal person;
- (10) appoint or remove the Bank's president and secretary to the Board in accordance with the recommendations of the Chairperson of the Board; appoint or remove the members of the Bank's senior management, including the executive vice president and chief financial officer in accordance with the recommendations of the president, and determine their remunerations, rewards and punishment;

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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- (11) formulate proposals on the remuneration and subsidies of the Directors of the Bank;
- (12) formulate the basic management systems, decide on the policies on risk management, internal control and compliance of the Bank;
- (13) formulate amendments to the Articles of Association;
- (14) formulate the information disclosure system of the Bank, incorporate the risk management work of the Bank's regulatory data into daily operation, implement responsibility of various aspects and manage the disclosure of information of the Bank;
- (15) propose at general meetings the engagement, replacement or dismissal of an accounting firm of the Bank;
- (16) supervise and evaluate the work performance of the Directors and senior management of the Bank, listen to the president's work report and inspect the president's work;
- (17) consider any major capital expenditure, contract and commitment which exceeds the expenditure limit set by the Board of Directors for senior management;
- (18) formulate proposals on the sale or transfer of all or substantially all of the Bank's business or assets;
- (19) draw up share incentive and equity repurchase plans of the Bank, and decide on the measures to link employees' salaries with the operational performance of the Bank;
- (20) report to the relevant authorities of the government in accordance with the laws and regulations with respect to significant events involving operational risks and financial security as well as major decisions that are likely to lead to financial risks and financial security issues before such decisions are made; and
- (21) other rights conferred by the laws, administrative regulations, departmental rules or the Articles of Association.

Unless otherwise required by the laws, regulations, regulatory authorities and the Articles of Association, the resolutions of the above matters of the Board must be approved by a majority of all the Directors, but in respect of the matters mentioned in paragraphs (5), (6), (7), (8), (10), (13), (17) and (18), the resolutions must be approved by more than two-thirds of all the Directors.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Appointment of Directors

The Directors (including non-executive Directors) are appointed for a term of three years, and are eligible for re-election upon expiry of their term of office, provided that the term of office of an independent non-executive Director must not be more than six years on an accumulative basis.

### Board Meetings

Pursuant to the Code, the Board is required to convene regular meetings at least four times every year and at least once in each quarter. Such regular meetings do not include obtaining Board consent through circulating written resolutions.

In 2017, the Board convened 8 meetings in total (including written resolutions), at which 38 proposals were considered and approved, and 3 matters were heard, mainly including amendments to the Articles of Association, financial report, profit distribution, the evaluation report on internal control, the report on comprehensive risk management etc.

Attendance records of the Directors at the Board meetings, meetings of the special committees under the Board and general meetings held in 2017 are set out below:

Members of the Board	Attendance in person/by proxy/required attendance (times)						
	Board	Audit Committee	Nomination and Remuneration Committee	Strategic Development Committee	Related Party Transactions Control Committee	Risk Control Committee	General Meetings
<b>Executive Directors</b>							
ZHANG Qiyang	4/0/4			1/0/1			
WANG Chunsheng	8/0/8			2/0/2	4/0/4		1/0/1
WANG Yigong	8/0/8					4/0/4	1/0/1
WU Gang	8/0/8			2/0/2			1/0/1
SUN Yongsheng	8/0/8					4/0/4	1/0/1

## CORPORATE GOVERNANCE REPORT (CONTINUED)

Members of the Board	Attendance in person/by proxy/required attendance (times)						
	Board	Audit Committee	Nomination and Remuneration Committee	Strategic Development Committee	Related Party Transactions Control Committee	Risk Control Committee	General Meetings
<b>Non-executive Directors</b>							
QIU Huofa	3/0/3			1/0/1			
LI Jianwei	8/0/8	3/0/3			4/0/4		1/0/1
LI Yuguo	7/1/8	2/1/3		1/1/2			1/0/1
ZHAO Weiqing	8/0/8			2/0/2		4/0/4	1/0/1
LIU Xinfu	8/0/8			2/0/2			1/0/1
<b>Independent non-executive Directors</b>							
YU Yongshun	8/0/8	3/0/3				4/0/4	1/0/1
LAU Chi Pang	7/1/8	3/0/3	2/0/2				0/0/1
BA Junyu	8/0/8		2/0/2		4/0/4	4/0/4	1/0/1
SUN Hang	8/0/8		2/0/2		4/0/4		1/0/1
DING Jiming	8/0/8	3/0/3			4/0/4		1/0/1
<b>Former Director</b>							
YANG Yuhua	1/0/1						

*Notes:*

- Directors who were involved in connected transactions and required to abstain from voting at the relevant meetings are deemed as present.
- Please refer to “Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management” for details of changes in Directors of the Bank.
- Attendance in person includes participation by way of physical attendance as well as participation by way of electronic means such as telephone and online video conference.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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### **Independent Non-executive Directors**

During the Reporting Period, the composition of the Board met the requirements under the Listing Rules regarding the appointment of at least three independent non-executive Directors representing at least one-third of the Board, with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The independent non-executive Directors do not have any business or financial interests, nor hold any management positions, in the Bank. All the current independent non-executive Directors are elected and appointed for a term of three years, and are eligible for re-election upon expiry of their term of office, provided that the term of office of an independent non-executive Director must not be more than six years on an accumulative basis.

The Bank has received the annual confirmation from each independent non-executive Director confirming his independence as required by the Listing Rules. The Bank considers that all independent non-executive Directors are independent.

During the Reporting Period, the Bank's independent non-executive Directors duly attended the meetings of the Board and the special committees thereof and provided independent and objective advice on various material decisions at the meetings of the Board and relevant special committees by taking advantage of their professional capabilities and industrial experiences. The Bank's independent non-executive Directors strengthened their communication with the senior management, specific departments and external auditors and thoroughly studied the operation and management of the Bank. They diligently fulfilled their obligations and performed their duties and provided strong support to the Board to make rational decisions and protected the interests of the Bank and its Shareholders as a whole.

### **Director's Responsibilities for the Preparation of Financial Statements**

The Directors have acknowledged their responsibility for the preparation of the financial statements of the Bank for the year ended 31 December 2017.

The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operation results and cash flows of the Bank.

In preparing the financial statements for the year ended 31 December 2017, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgment.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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### Continuous Professional Development Program for Directors

Each newly appointed Director must receive a comprehensive, formal and tailored induction upon his/her first appointment, to ensure that he/she has a proper understanding of the operations and business of the Bank and that he/she is fully aware of his/her duties and responsibilities under the Listing Rules, applicable laws and regulatory rules.

Training for the Directors must be carried out on an ongoing basis. The Bank encourages all Directors to participate in continuous professional development to develop and update their knowledge and skills.

The Bank also provides the Directors with updates on the Listing Rules and other applicable regulatory requirements from time to time, to ensure that the Directors will make their contribution to the Board with informed and relevant information, abide by the Code and enhance their awareness of sound corporate governance practices.

In addition, the Directors attended a number of seminars and training courses provided by professional institutions engaged by the Bank. In 2017, the seminars and training courses attended by the Directors covered the following topics:

1. Compliance operation of Hong Kong listed companies;
2. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
3. Corporate governance and strategy management;
4. Risk management and internal control;
5. ESG Report Guidelines.

Directors	Topics of Trainings Attended
<b>Executive Directors</b>	
ZHANG Qiyang	1, 2, 3, 4, 5
WANG Chunsheng	1, 2, 3, 4
WANG Yigong	1, 2, 3, 4, 5
WU Gang	1, 2, 3, 4, 5
SUN Yongsheng	1, 2, 3, 4, 5

## CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors	Topics of Trainings Attended
<b>Non-executive Directors</b>	
QIU Huofa	1, 2, 3, 4, 5
LI Jianwei	1, 2, 3, 4
LI Yuguoi	1, 2, 3, 4
ZHAO Weiqing	1, 2, 3
LIU Xinfu	1, 2, 3
<b>Independent non-executive Directors</b>	
YU Yongshun	1, 2, 3, 5
LAU Chi Pang	1, 2, 3
BA Junyu	1, 2, 3, 4
SUN Hang	1, 2, 3
DING Jiming	1, 2, 3, 4
<b>Former Director</b>	
YANG Yuhua	1, 2, 3

### Corporate Governance Functions of the Board

The Board is responsible for establishing sound corporate governance practices and procedures within the Bank. During the Reporting Period, the Board has:

1. formulated and reviewed the Bank's corporate governance policies and practices, and made recommendations;
2. reviewed and monitored the training and continuous professional development of Directors and senior management members;
3. reviewed and monitored the Bank's policies and practices in respect of compliance with laws and regulatory requirements;
4. formulated, reviewed and monitored the codes of conduct for Directors and employees; and
5. reviewed compliance with the Code and the disclosures in the Corporate Governance Report of the Bank.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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### Special Committees under the Board

The Board has the following committees: audit committee, nomination and remuneration committee, strategic development committee, related party transactions control committee and risk control and consumers' rights protection committee. The Board committees have been operated in accordance with their respective terms of reference defined by the Board.

Please refer to "Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management" for details of changes in Directors of the Bank.

#### **(I) Audit Committee**

As at 31 December 2017, the Bank's audit committee consisted of five Directors, including Mr. DING Jiming as the chairman, and Mr. YU Yongshun, Mr. LAU Chi Pang, Mr. LI Jianwei and Mr. LI Yuguo as members. The composition of the audit committee complies with Rules 3.10(2) and 3.21 of the Listing Rules and paragraph C3 of the Code.

The primary duties of the audit committee include:

1. examine the Bank's risks and compliance status, accounting policies, financial reporting process and financial status, review the completeness of the Bank's financial information, including financial statements and annual report and accounts, interim reports and quarterly reports (if any), and review the major opinion related to financial reporting as disclosed in the statements and reports.

The audit committee must liaise with the Board and senior management with regard to the above matters and meet at least twice a year with the external auditors. The audit committee must consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Bank's staff responsible for the accounting and financial reporting function, compliance officer (if any) or external auditors;

2. With respect to external auditors:
  - (1) make recommendations to the Board on the appointment, reappointment or removal of the external auditors, reviewing the fees and terms of engagement of the external auditors, and handling any matters relating to the resignation or dismissal;



## CORPORATE GOVERNANCE REPORT (CONTINUED)

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- (2) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The audit committee should discuss with the external auditors the nature and scope of the audit and the related reporting obligations before the audit commences;
  - (3) develop and implement policy on engaging external auditors to provide non-audit services;
  - (4) review the audit results letter presented by external auditors to the management, as well as any material queries raised by the auditors to the management about accounting records, financial accounts or monitoring systems, and the management's response;
  - (5) ensure that the Board will timely respond to the matters raised in the audit results letter presented by external auditors to the management; and
  - (6) act as the key representative body for overseeing the Bank's relations with the external auditors and being responsible for the communications between internal and external auditors to ensure that internal and external audit work has been coordinated.
3. being responsible for the Bank's annual audit and overseeing the senior management to rectify the issues raised in the audit and implement audit recommendations;
4. review and approve the Bank's internal audit system and supervise its implementation, review, evaluate and report to the Board on the internal audit on a regular basis, and ensure that the internal audit department has sufficient resources for operation and proper status;
5. examine the Bank's financial reporting system, risk management system and internal control system and their implementation;
6. urge the senior management to develop and implement anti-money laundering policies, systems and procedures, supervise the work of the anti-money laundering, listen to senior management reports on major anti-money laundering matters and make decisions on the policy adjustments in a timely manner; and
7. other duties required by the laws and regulations, rules and the securities regulatory authority where the Bank's shares are issued and listed, or authorised by the Board.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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During the Reporting Period, the audit committee held three meetings, at which 20 proposals were considered, mainly including the 2016 financial report, the 2016 profit distribution plan, the 2016 internal audit work report, the 2016 evaluation report on internal control, the engagement of auditors for 2017, the 2016 comprehensive risk audit report, the financial report for the six months ended 30 June 2017 and the 2017 interim report. In addition, the audit committee held 2 meetings with the auditors and 1 meeting with the auditors in the absence of the management in accordance with the code provisions of the Code.

### **(II) *Nomination and Remuneration Committee***

As at 31 December 2017, the Bank's nomination and remuneration committee consisted of five Directors, including Mr. SUN Hang as the chairman, and Mr. ZHANG Qiyang, Mr. QIU Huofa, Mr. LAU Chi Pang and Mr. BA Junyu as members, with a majority of the members being independent non-executive Directors.

The primary duties of the nomination and remuneration committee include:

1. review, at least annually, the structure, size and composition (including the skills, knowledge and experience) of the Board, according to the Bank's operation, asset size and ownership structure, and make recommendations with regard to any contemplated changes made to the Board in line with the Bank's development strategy and operation strategy implementations;
2. research and formulate the procedures and standards for electing the Directors and senior management, identify individuals with suitable qualifications for Directors and senior management of the Bank, and make recommendations to the Board;
3. conduct preliminary reviews of the qualifications of potential Directors and senior management, and make recommendations to the Board;
4. assess the independence of the independent non-executive Directors;
5. make recommendations to the Board on the appointment or re-appointment of Directors and succession plan for Directors, in particular, the Chairperson and President of the Bank;
6. develop and review in appropriate cases the Bank's policy concerning diversity of the Board members, and make disclosure of the relevant policy or a summary of the policy in the corporate governance report of the Bank;

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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7. study and formulate the standards for appraising Directors and senior management and conduct appraisals and put forward proposals to the Bank;
8. review the remuneration management policies and systems of the Bank, formulate appraisal, compensation and incentive plans for the Directors and senior management, and make recommendations to the Board and supervise the implementation of the relevant policies, systems and plans. The nomination and remuneration committee must consult the Chairperson or the President of the Bank in respect of the remuneration suggestions of executive Directors and senior executives;
9. review and approve remuneration suggestions by management based on the corporate goals and objectives formulated by the Board;
10. determine the remuneration packages of the executive Directors and senior management under authorisation of the Board, or make suggestions to the Board in respect of the remuneration packages of the executive Directors and senior management;
11. make suggestions to the Board in respect of the remuneration packages of the non-executive Directors;
12. consider the salaries paid by similar banks, time and responsibilities required for the posts and terms of employment of the Bank's other posts;
13. review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment, and ensure that such compensation is consistent with the terms of the contract; if inconsistent, the compensation must be fair and reasonable but not excessive;
14. review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct, and ensure that such compensation is consistent with the terms of the contract; if inconsistent, the compensation must be fair and reasonable;
15. ensure that no Director or any of their associates is involved in deciding his or her own remuneration; and
16. other duties required by the laws and regulations, rules, and the securities regulatory authority where the Bank's shares are issued and listed, or authorised by the Board.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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During the Reporting Period, the nomination and remuneration committee held two meetings, at which 9 proposals were considered, mainly including the performance appraisal for 2016, the appraisal report on the performance of duties by Directors for 2016, the report on the work of independent non-executive Directors for 2016, election of the chairman of the Board and adjustment of the composition of the strategic development committee and the nomination and remuneration committee.

The diversity policy of the Board is summarised as follows:

The Board believes that a board of directors with a diverse composition will enable the Bank to, in a more efficient manner, improve the work quality of the Board, understand and meet customer needs and enhance decision-making ability of the Board. In selecting candidates, the Board and the nomination and remuneration committee consider a large number of factors including but not limited to gender, age, cultural and educational background, race, professional experience, skills and knowledge and years of service, in order to achieve the diversity of members of the Board. The nomination and remuneration committee reports annually on the composition of the Board from the perspective of diversity, and monitors the implementation of this policy.

As at the end of the Reporting Period, the Board comprised 15 Directors, including one person who was ordinarily resident in Hong Kong. The Board is diverse in terms of nationality, professional background and skills of its members.

### **(III) Strategic Development Committee**

As at 31 December 2017, the Bank's strategic development committee consisted of seven Directors, including Mr. ZHANG Qiyang as the chairman, and Mr. LI Yuguo, Mr. QIU Huofa, Mr. ZHAO Weiqing, Mr. LIU Xinfa, Mr. WANG Chunsheng and Mr. WU Gang as members.

The primary duties of the strategic development committee include:

1. review and provide advice to the Board on the Bank's mid- and long-term development strategies;
2. supervise and assess the implementation of the Bank's development strategies;
3. review and provide advice to the Board on the annual budget and final accounts;
4. supervise and inspect the implementation of annual operation plans and investment plans;

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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5. review the strategic capital allocation (such as capital structure, capital adequacy ratio) and the objectives of assets and liabilities management;
6. review the Bank's plans for establishment of branches and sub-branches, material investment and financing, disposal of assets, mergers and acquisitions;
7. inspect and assess the integrity of the Bank's corporate governance structure; and
8. review the Bank's information technology strategic plan and annual business continuity management plan.

During the Reporting Period, the strategic development committee held two meetings, at which 15 proposals were considered on the matters mainly including work review for the year of 2016 and work plan for the year of 2017, the report of the Board of Directors for 2016, the institutional development plan for 2017, the evaluation report for capital adequacy ratio for 2016, the report on execution of green credit strategy for 2016, the 2016 work report for consumers' rights protection, the work review for the first half of 2017, the work plan for the second half of 2017, and implementation of drill for switching disaster back-up system for 2017.

### **(IV) Related Party Transactions Control Committee**

As at 31 December 2017, the Bank's related party transactions control committee consisted of five Directors, including Mr. BA Junyu as the chairman, and Mr. WANG Chunsheng, Mr. SUN Hang, Mr. DING Jiming and Mr. LI Jianwei as members.

The primary duties of the related party transactions control committee include:

1. identify related parties of the Bank and report to the Board of Directors and the Board of Supervisors, and notify the relevant departments of the Bank of the related parties;
2. conduct review of related party transactions subject to review by the Board and submit such related party transactions to the Board for review, or review the related party transactions within its scope of authority;
3. supervise related party transactions conducted by the Bank; and
4. review the Bank's annual related party transactions and the plan for related party transactions control, and submit the findings to the Board for review.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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During the Reporting Period, the related party transactions control committee held four meetings, at which 14 proposals were considered on the matters mainly including 2016 annual review of related party transactions and the 2017 control plan for related party transactions, and identifying related parties as at the end of 2016.

### **(V) Risk Control and Consumers' Rights Protection Committee**

As at 31 December 2017, the Bank's risk control and consumers' rights protection committee consisted of five Directors, including Mr. YU Yongshun as the chairman, and Mr. WANG Yigong, Mr. BA Junyu, Mr. ZHAO Weiqing and Mr. SUN Yongsheng as members.

The primary duties of the risk control and consumers' rights protection committee include:

1. ensure the effectiveness of the Bank's risk management system and that the risks faced by the Bank's business are under control;
2. review and amend the Bank's policies and reports of risk management; and conduct supervision and evaluation on its implementation in accordance with the Bank's general strategy;
3. conduct regular review of the risk report submitted by the senior management;
4. ensure that necessary measures are adopted by the senior management to identify, evaluate, measure, detect, control and mitigate risks;
5. review and approve the Bank's compliance policies, conduct regular review of the compliance risk report submitted by the senior management, and supervise the implementation of the compliance policies; and
6. conduct regular review of the Bank's information technology risk management report and the Bank's business continuity assessment report.

During the Reporting Period, based on the overall risk management strategies of the Bank, the risk control and consumers' rights protection committee reviewed and amended the Bank's risk management policies, regularly reviewed the risk reports submitted by the senior management to further understand the Bank's risk management work and the effectiveness of relevant measures, and made recommendations to the Board.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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During the Reporting Period, the risk control and consumers' rights protection committee held four meetings, at which 14 proposals were considered on the matters mainly including the 2016 risk incident detection and inspection report, 2017 incident prevention plan, 2016 comprehensive risk management report, 2016 compliance risk management report, 2016 information technology risk management report, 2016 liquidity risk analysis report, 2016 anti-money laundering risk management report, pressure testing work plan and 2017 business continuity plan. Such work mainly focused on (1) strengthening comprehensive risk management, especially continuing the construction of a comprehensive risk management system consistent with the Bank's development strategies, operational scale, business scope and risk prevention; (2) strengthening the Bank's capabilities of specific risk management, such as integrating liquidity risk management into the Bank's strategic management, constantly enhancing information technology management, reviewing compliance risk management report, and reviewing anti-money laundering risk management report; and (3) emphasising internal control management, especially reviewing the internal control evaluation report and revising the stress testing management measures.

### BOARD OF SUPERVISORS

#### Composition of the Board of Supervisors

As at the end of the Reporting Period, the Board of Supervisors comprised nine Supervisors, including three employee representative Supervisors, namely, Mr. YANG Lin, Mr. HAN Xuefeng and Mr. SHI Yang, three Shareholder representative Supervisors, namely, Mr. CHEN Zhaogui, Mr. PAN Wenge and Ms. SUN Yi, and three external Supervisors, namely, Mr. HUANG Lianguai, Mr. ZHOU Zheren and Mr. WEN Zhaoye.

#### Chairman of the Board of Supervisors

Mr. YANG Lin serves as the chairman of the Board of Supervisors and is responsible for organisation and performance of duties of the Board of Supervisors.

#### Meetings of the Board of Supervisors

In 2017, the Board of Supervisors held a total of 7 meetings, at which 32 proposals were considered and approved on matters including the work report of the Board of Supervisors, the supervision and inspection report, periodic reports, the comprehensive risk management report, the evaluation report on internal control, the compliance risk management report, the final financial accounts report, the profit distribution plan and performance appraisal on the Directors, Supervisors and senior management of the Bank.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

During the Reporting Period, the external Supervisors performed their duties in accordance with the laws, regulations, the Articles of Association of the Bank and the Rules of Procedures of the Board of Supervisors. They duly performed their supervisory duties, exercised their supervisory power according to the laws and effectively exerted their supervision and counter-balance functions in corporate governance.

Attendance records of the Supervisors at the meetings of the Board of Supervisors and the committees under the Board of Supervisors during the Reporting Period are set out below:

Members of the Board of Supervisors	Attendance in person/by proxy/required attendance (times)		
	Board of Supervisors	Supervision Committee	Nomination Committee
YANG Lin	7/0/7	2/0/2	1/0/1
HAN Xuefeng	7/0/7		1/0/1
SHI Yang	7/0/7	2/0/2	
CHEN Zhaogui	5/2/7		1/0/1
PAN Wenge	7/0/7	2/0/2	
SUN Yi	7/0/7	2/0/2	
HUANG Liangkuai	6/1/7		1/0/1
ZHOU Zheren	6/1/7	1/1/2	
WEN Zhaoye	7/0/7		1/0/1

*Note:* Attendance in person includes participation by way of physical attendance as well as electronic means such as telephone and online video conference.

### Committees under the Board of Supervisors

The Bank has also established two committees under the Board of Supervisors: a supervision committee and a nomination committee. The committees operate in accordance with terms of reference established by the Board of Supervisors.

#### (I) *Supervision Committee*

As at 31 December 2017, the Bank's supervision committee under the Board of Supervisors consisted of five Supervisors, including Mr. ZHOU Zheren as the chairman, and Mr. YANG Lin, Mr. SHI Yang, Ms. SUN Yi and Mr. PAN Wenge as members.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

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The primary duties of the supervision committee include:

1. draft specific plans on supervising and examining the Bank's financial activities, operating decisions, internal control and risk management with the authorisation of the Board of Supervisors and based on the needs, put forward them to the Board of Supervisors for consideration and implement such plans upon approval;
2. review and provide advice to the Board of Supervisors on the Bank's annual financial report, annual audit report, profit allocation plan formulated by the Board; and
3. when becoming aware of any unusual operating condition of the Bank, or upon the occurrence of significant contingencies or major risk events, formulate investigation plans according to the decision of the Board of Supervisors, and if necessary, organising relevant staff or engaging intermediaries, such as accounting firms and law firms, for assistance.

During the Reporting Period, the supervision committee held 2 meetings, at which 14 proposals were considered on the matters mainly including work review for the year of 2016 and work plan for the year of 2017, the 2016 internal control evaluation report, the 2016 internal audit report, the financial report for 2016, 2016 final accounts and 2017 financial budget report as well as the 2016 profit distribution plan.

### **(II) Nomination Committee**

As at 31 December 2017, the Bank's nomination committee under the Board of Supervisors consisted of five Supervisors, including Mr. WEN Zhaoye as the chairman and Mr. YANG Lin, Mr. HAN Xuefeng, Mr. CHEN Zhaogui and Mr. HUANG Liangkuai as members.

The primary duties of the nomination committee include:

1. provide advice to the Board of Supervisors on the composition and members of the Board of Supervisors based on the Bank's operational and management status, total asset value and shareholding structure;
2. research the procedures and criteria for selecting Supervisors, conduct preliminary review on the qualifications of Supervisor candidates, and provide advice to the Board of Supervisors;
3. seek qualified supervisor candidates;

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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4. supervise the procedures for selection and appointment of Directors;
5. conduct comprehensive evaluation on the work performance of Directors, Supervisors and senior management and report to the Board of Supervisors; and
6. supervise the scientificity and reasonableness of the remuneration management system and policies of the Bank and the remuneration packages for the senior management.

During the Reporting Period, the nomination committee held one meeting, at which the appraisal report on the performance of duties by Directors, Supervisors and senior management for 2016 was considered.

### SENIOR MANAGEMENT

The senior management, as the executive body of the Bank, is accountable to the Board and supervised by the Board of Supervisors. The division of authority between the senior management and the Board is in strict accordance with the Articles of Association and other corporate governance documents of the Bank.

The President has the right to organise and develop business and management activities in accordance with the laws, regulations, rules, the Articles of Association and under the authorisation of the Board. The President has the following functions and powers:

1. take charge of the business operation and management of the Bank, organise the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;
2. submit annual business plans and investment proposals to the Board of Directors on behalf of the senior management, and organise the implementation of Board resolutions, annual plans of the Bank and investment proposals upon approval by the Board of Directors;
3. draft proposals on the establishment of the Bank's internal management departments;
4. set up the Bank's basic management system;
5. formulate the Bank's specific regulations;
6. propose to the Board of Directors to engage or dismiss the vice presidents and chief financial officer;

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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7. decide to engage or dismiss management other than those to be engaged or dismissed by the Board of Directors;
8. authorise the senior management of the Bank and persons in charge of internal departments and branches to conduct operational activities;
9. formulate proposals on wages, benefits, rewards and punishment of the Bank's staff, and decide on their appointment and dismissal;
10. adopt emergency measures when any major emergency, such as bank run, arises and promptly report them to the banking regulatory authority of the State Council and the Board of Directors and the Board of Supervisors; and
11. other powers and rights conferred by the Articles of Association and by the Board of Directors.

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 individuals
Nil to RMB2,000,000	0
RMB2,000,001 to RMB3,000,000	0
RMB3,000,001 to RMB4,000,000	4

### DELEGATION OF POWER BY THE BOARD

The management led by the Board exercises its powers in accordance with its responsibilities as set out in the Articles of Association. Apart from implementing resolutions of the Board, the management takes charge of the daily operation and management of the Bank. Major capital expenditure projects must be approved by the Board through the annual budget proposal and then be implemented. Any projects that are either not included in the budget proposal, or included in the budget proposal but without detailed expenditures, will be decided by the management with the authorisation by the Board.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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Such other matters delegated by the Board to the management include loans and guarantees, related party transactions, mortgage financing and guarantees, inter-bank financing business, acquisition of fixed assets, disposal of assets, disposal of non-performing assets and mortgage assets, write-off of assets, donations to external bodies, and establishment, merger and relocation of non-independent accounting sub-branches, provided that the amount of such transaction does not exceed a certain limit. For details, please refer to “Corporate Governance Report – The Board and Special Committees”.

### CHAIRMAN AND PRESIDENT

The roles and functions of the Chairman and the President of the Bank are carried out by different persons. For details of the Chairman and the President of the Bank, please refer to the section headed “Directors, Supervisors, Senior Management and Employees”.

The Chairman of the Board is responsible for overall strategic planning and presiding over the Board, to ensure that the Board works effectively and timely considers all significant matters. The President is responsible for business development and overall operation and management of the Bank. The President is appointed by and accountable to the Board, and must perform his duties in accordance with the Articles of Association and authorisation of the Board. The roles of the Chairman and the President are separated with a clear division of responsibilities. The management is responsible for the day-to-day operation and management.

During the Reporting Period, the Chairman held two meetings with the non-executive Directors (including independent non-executive Directors) in the absence of the executive Directors.

### SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank adopted the Rules for Securities Transactions by Directors, Supervisors and Key Employees of Shengjing Bank Co., Ltd. (the “Rules for Securities Transactions”) regarding securities transactions by Directors, Supervisors and certain key employees on terms not less exacting than the required standard 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, each of the Directors and Supervisors has confirmed that they complied with the Rules for Securities Transactions during the Reporting Period.

### EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The audit opinion of the external auditors engaged by the Bank and their responsibilities are set out in the Independent Auditor's Report.

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 to KPMG and KPMG Huazhen LLP for the audit of the financial statements for the year ended 31 December 2017 are RMB3.50 million and RMB1.50 million, respectively.

The Bank agreed to pay KPMG Advisory (China) Limited Beijing Branch for the non-auditing services for the year ended 31 December 2017 a fee of RMB0.50 million.

### INTERNAL CONTROL

#### Risk Management and Internal Control

##### *(I) Procedures and System*

The Board is responsible for the establishment and implementation of a sound risk management and internal control system as well as the review of the effectiveness of such system. The Board of Supervisors supervises the establishment and implementation of risk management and internal control by the Board and senior management. The senior management is responsible for the day-to-day operation of risk management and internal control across the Bank. Meanwhile, the Board has established the audit committee, the risk control and consumers' rights protection committee and the related party transactions control committee to fulfill the responsibilities of risk management and internal control and evaluate the effectiveness of such risk management and internal control.

The Board attaches great importance to the construction of risk management and internal control. The Bank has established a risk management system featuring "uniform leadership, vertical management and hierarchical accountability" to identify, assess and manage the major risks related to the Bank. In particular, the Bank complies with the requirements on the establishment of risk management and internal control under, among others, the PRC Commercial Banking Law, the Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), the Internal Control Guidelines for Commercial Banks (《商

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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業銀行內部控制指引》) and the guidelines issued by the Basel Committee on Banking Supervision. Accordingly, the Bank developed a risk management and internal control system which covers such five aspects as internal environment, risk assessment, activity control, information and communication, and internal supervision and is in line with the Bank's development strategies, operating scale, scope of business and risk appetite. The Board acknowledges that such system 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.

### **(II) Annual Review and Review Procedures**

The Board, the Board of Supervisors and senior management constantly pay attention to the effectiveness of risk management and internal control, actively promote relevant rectification and reforms and optimise its system rules, procedures and IT system, thereby encouraging its functional departments and all branches to strengthen risk control in order to improve business efficiency and results.

During the Reporting Period, in accordance with the PRC Commercial Banking Law, the Law on Supervision of Banking Business, the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), the Guidelines for the Comprehensive Risk Management of Banking Financial Institutions (《銀行業金融機構全面風險管理指引》) and other legal and regulatory requirements and based on the Measures for Internal Control Assessment of Shengjing Bank, the Risk Reporting Policy of Shengjing Bank and other policies, the Bank organised and conducted comprehensive reviews, adopting such measures as inspection on all major business lines, assessment by risk management department and interviews, with reference to the internal audit and external inspection during the Reporting Period. Such review covered all material risk control aspects of the Bank, including financial, operational and compliance. During the Reporting Period, the Board conducted an annual review of the effectiveness of the Bank's internal control system. The Board reviewed the risk management report once and the internal control report twice. The Board considers the risk management and internal control systems effective and adequate. The Board also believes that the resources, qualifications and experience of staff of the Bank's accounting, internal audit and financial reporting functions as well as their training programs and financial budgets are adequate and appropriate. There was no significant area of concern during the Reporting Period.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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### **(III) Procedural Structure for Inside Information**

The Bank adheres to the principles of timeliness, fairness, accuracy, truthfulness and completeness as to its information disclosure. The Bank has established relevant procedures and systems to satisfy the requirements of SFO and other applicable laws on information disclosure. Such procedures and systems are in relation to handling and publishing inside information and carrying out internal inspections. The Bank also constantly improves its efforts in information disclosure and investor relations management, and carries out information disclosures in accordance with applicable laws.

For further details of risk management and internal control of the Bank, please refer to the sections headed “Management Discussion and Analysis – Risk Management” and “Internal Control” in this report.

## **COMPANY SECRETARY**

As at the end of the Reporting Period, Ms. KWONG Yin Ping Yvonne of SW Corporate Services Group Limited and Mr. ZHOU Zhi, the secretary of the Board of Directors of the Bank, were the joint company secretaries of the Bank. Each of them has complied with the requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for no less than 15 hours during the Reporting Period. Mr. ZHOU is the primary contact person for Ms. KWONG at the Bank.

## **INFORMATION DISCLOSURE**

### **Effective Communication with Shareholders**

The Bank places great emphasis on communication with the Shareholders, and strives to improve mutual understanding and communication with the Shareholders through various channels including general meeting, results presentation, roadshows, visit reception and telephone enquiries.

### **Amendments to the Articles of Association**

Reference is made to (i) the circular of the Bank dated 13 January 2018 in relation to, among other things, the amendments to the Articles of Association; (ii) the announcement of the Bank dated 28 February 2018 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association by Shareholders at the 2018 first extraordinary general meeting of the Bank; and (iii) the announcement of the Bank dated 8 April 2018.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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The amended Articles of Association was approved by the CBRC Liaoning Bureau on 23 March 2018 and has become effective on the same date.

Reference is made to (i) the circular of the Bank dated 31 March 2017 in relation to, among other things, the amendments to the Articles of Association; (ii) the announcement of the Bank dated 16 May 2017 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association by Shareholders at the 2016 annual general meeting of the Bank; and (iii) the announcement of the Bank dated 13 August 2017.

The amended Articles of Association was approved by the CBRC Liaoning Bureau on 8 August 2017 and has become effective on the same date.

### SHAREHOLDERS' RIGHTS

#### Request of Shareholders for Convening an Extraordinary General Meeting

The Bank effectively protects shareholders' rights in strict compliance with regulatory regulations and its corporate governance system.

Shareholders individually or in aggregate holding 10% or more of the Bank's voting shares have the right to request in writing the Board of Directors to convene an extraordinary Shareholders' general meeting or a class shareholder meeting. The Board of Directors shall grant feedback in writing of whether to convene the extraordinary shareholders' general meeting or class shareholder meeting within 10 days from the receiving date of such request in accordance with the laws, administrative regulations and the Articles of Association. The shareholding of the above shareholders is based on their shareholdings on the date such request is proposed in writing.

The Board of Directors shall give notice of a shareholders' general meeting or a class shareholder meeting within five days from adoption of the resolution of the Board upon agreeing to convene an extraordinary shareholders' general meeting or a class shareholder meeting and any change to the original proposals stated in the notice shall obtain the consent of the relevant shareholders.

If the Board of Directors decides against the convening of an extraordinary Shareholders' general meeting or a class shareholder meeting, or the Board of Directors fails to grant feedback within 10 days from receiving the proposal, shareholders individually or in aggregate holding 10% or more of the Bank's voting shares are entitled to propose for convening an extraordinary Shareholders' general meeting or a class shareholder meeting to the Board of Supervisors in writing.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

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The Board of Supervisors shall give notice of a Shareholders' general meeting or a class shareholder meeting within five days from adoption of the resolution upon agreeing to convening an extraordinary Shareholders' general meeting or a class shareholder meeting and any change to the original proposals stated in the notice shall obtain the consent of the relevant shareholders.

If the Board of Supervisors fails to issue notice of the Shareholders' general meeting or class shareholder meeting, the Board of Supervisors will be deemed not to convene or preside over the Shareholders' general meeting or class shareholder meeting and such a meeting may be convened and presided over by shareholders individually or in aggregate holding 10% or more of the Bank's voting shares for at least ninety consecutive days.

Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details.

### **Proposals at General Meetings**

The Board and the Board of Supervisors as well as Shareholders individually or collectively holding 3% or more voting shares of the Bank have the right to put forward proposals at a general meeting of the Bank. Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details.

Shareholders may refer to Article 90 of the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details of the general methods and procedures for nominating Directors and Supervisors.

## **RELATIONSHIP WITH KEY STAKEHOLDERS**

The Bank considers its employees as its core assets. The Bank has established a performance-based compensation system to encourage a fair and friendly working environment. The Bank has also developed and implemented proper strategies and plans to support the career path and professional advancement of its employees.

Paying close attention to the customers' demands, the Bank has continuously diversified its products and services as well as expanded its sales channels, with a view to optimising the customer experience and expanding its client base. The Bank will continue its endeavors to provide its customers with quality products and services.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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### INVESTOR RELATIONS

Shareholders and investors may send enquiries to the Board as follows:

Office of the Board, Shengjing Bank Co., Ltd.

No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC

Tel: +86 (24) 2253 5633

Fax: +86 (24) 2253 5930

E-mail: [dongshihui@shengjingbank.com.cn](mailto:dongshihui@shengjingbank.com.cn)

Principal place of business in Hong Kong of Shengjing Bank Co., Ltd.:

Units 08–09, 18/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong

### SHAREHOLDERS' ENQUIRIES

Any enquiries related to your shareholding of H Shares, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to the following address:

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Tel: (852) 2862 8555

Fax: (852) 2865 0990

Any enquiries related to your shareholding of Domestic Shares, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to the following address:

Office of the Board, Shengjing Bank Co., Ltd.

No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC

Tel: +86 (24) 2253 5633

Fax: +86 (24) 2253 5930

### **ADDITIONAL INFORMATION**

The Bank currently holds a Financial Institution License (institution number: B0264H221010001) issued by the CBRC Liaoning Bureau, and a Business License (credibility code: 91210100117809938P) issued by the Administration for Industry and Commerce of Shengyang. The Bank is not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking and/or deposit-taking business in Hong Kong.

# REPORT OF THE BOARD OF DIRECTORS

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

## PRINCIPAL BUSINESS

The Bank is engaged in banking businesses and related financial services.

## BUSINESS REVIEW

A review of the Bank's business during the Reporting Period is set out in the "Management Discussion and Analysis" section. The key financial performance indicators are set out in the "Financial Highlights" section. Compliance with relevant laws and regulations which have a significant impact on the Bank can be found throughout this report, in particular, in the section of "Corporate Governance Report". Analysis on the relationship with key stakeholders can also be found in the section of "Corporate Governance Report".

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Bank are set out in "Management Discussion and Analysis – Risk Management".

## IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

There are no important events affecting the Bank that have occurred since the end of the Reporting Period.

## FUTURE DEVELOPMENT IN THE BANK'S BUSINESS

Please refer to "Management Discussion and Analysis – Environment and Prospects" and "Management Discussion and Analysis – Development Strategies".

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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### PROFITS AND DIVIDEND

The Bank's revenue for the year ended 31 December 2017 and the Bank's financial position as at the same date are set out in the "Financial Statements" section.

Pursuant to the resolutions passed at the 2016 annual general meeting of the Bank held on 16 May 2017, the Bank will distribute a cash dividend of RMB2.5 (tax inclusive) for every ten Shares of the Bank in an aggregate amount of RMB1,449.17 million (tax inclusive) to all the Shareholders of the Bank whose names appeared on the register of members on 25 May 2017. Such dividend was denominated in Renminbi. Dividend payable to holders of Domestic Shares was paid in Renminbi, whereas dividend payable to holders of H Shares was paid in Hong Kong dollars. Such dividend was distributed to the Shareholders on 14 July 2017.

The Board has proposed the payment of a cash dividend of RMB1.80 (tax inclusive) for every ten Shares of the Bank for the year ended 31 December 2017 in an aggregate amount of RMB1,043.40 million (tax inclusive) to all the Shareholders of the Bank. The dividend distribution plan will be submitted to the 2017 annual general meeting of the Bank for consideration and approval. If such proposal is approved at the 2017 annual general meeting of the Bank, the dividend will be distributed to holders of Domestic Shares of the Bank and holders of H Shares of the Bank whose names appear on the register of members on 11 June 2018 (Monday). Such cash dividend is expected to be distributed to the Shareholders of the Bank on 2 August 2018.

Such proposed dividend will be denominated in Renminbi. Dividend payable to holders of Domestic Shares will be paid in Renminbi, whereas dividend payable to holders of H Shares will be paid in Hong Kong dollars. The exchange rate of Renminbi to Hong Kong dollars to be adopted will be the average middle rate of the five business days preceding the date of declaration of such dividend (inclusive) (being 31 May 2018 (Thursday), the date of the 2017 annual general meeting of the Bank) as announced by the PBOC.

The register of members of the Bank will be closed to holders of H shares from 6 June 2018 (Wednesday) to 11 June 2018 (Monday) (both days inclusive). In order to be entitled to the final dividend, holders of H Shares of the Bank who have not registered the relevant transfer documents are required to lodge the transfer documents, accompanied by the relevant share certificates, with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 5 June 2018 (Tuesday).

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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The amounts of cash dividends and ratios of cash dividends to profit for the year of the Bank for the past three years are as follows:

	2016	2015	2014
	<i>RMB Million, except percentages</i>		
Cash dividend (tax inclusive)	1,449.17	1,623.07	1,594.09
As a percentage of profit for the year	21.1%	26.2%	29.5%

### ANNUAL GENERAL MEETING OF 2017 AND CLOSURE OF REGISTER OF MEMBERS

The Bank's 2017 annual general meeting will be held on 31 May 2018 (Thursday). In order to determine the holders of H Shares who are eligible to attend and vote at the 2017 annual general meeting of the Bank, the register of members of the Bank will be closed from 1 May 2018 (Tuesday) to 31 May 2018 (Thursday) (both days inclusive), during which period no transfer of shares will be registered. Holders of H Shares of the Bank who wish to attend and vote at the 2017 annual general meeting of the Bank must lodge all transfer documents, accompanied by the relevant share certificates, with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 30 April 2018 (Monday).

### CHANGES IN THE RESERVES

Details of the changes in the reserves of the Bank for the year ended 31 December 2017 and reserves available for distribution are set out in the financial statements.

### PLEDGE OF ASSETS

Details of the pledge of assets of the Bank for the year ended 31 December 2017 are set out in the financial statements.

### SUMMARY OF FINANCIAL INFORMATION

The summary of the operating results and assets and liabilities of the Bank for the five years ended 31 December 2017 is set out in the "Financial Highlights".

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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### **DONATIONS**

The charitable and other donations made by the Bank for the year ended 31 December 2017 amounted to approximately RMB2.38 million.

### **PROPERTY AND EQUIPMENT**

Details of the changes in property and equipment of the Bank for the year ended 31 December 2017 are set out in note 22 to the financial statements.

### **RETIREMENT BENEFITS**

Details of the retirement benefits provided by the Bank to employees are set out in note 31 to the financial statements.

### **SUBSTANTIAL SHAREHOLDERS**

Details of the Bank's substantial shareholders as at 31 December 2017 are set out in "Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons" and the relevant parts of the notes to the financial statements, respectively.

### **PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES OF THE BANK**

During the Reporting Period, the Bank had not purchased, sold or redeemed any listed securities of the Bank.

### **PRE-EMPTIVE RIGHTS**

There are no provisions in the Articles of Association and the relevant PRC laws for granting pre-emptive rights to Shareholders of the Bank. The Articles of Association provide 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, or using any other ways permitted by laws and administrative regulations.

### **MAJOR CUSTOMERS**

In 2017, the aggregate amount of operating income generated from the five largest customers of the Bank represented a percentage not exceeding 30% of the total operating income of the Bank.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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### USE OF PROCEEDS

During the Reporting Period, the Bank applied all the proceeds from the initial public offering in accordance with the usage as disclosed in the prospectus – to strengthen our capital base so that we may continue to grow our business.

### SHARE CAPITAL

The details of the change in the share capital of the Bank during the year are stated in note 33 to the financial statements.

### DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

The details of the Directors, Supervisors, senior management and employees are stated in the “Directors, Supervisors, Senior Management and Employees” section.

### 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 independence, and considered that all the existing independent non-executive Directors are independent pursuant to the guidelines set out in Rule 3.13 of the Listing Rules.

### DIRECTORS’, CHIEF EXECUTIVE’S AND SUPERVISORS’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, to the knowledge of the Directors after making reasonable enquiries, the interests or short positions of the Directors, the chief executive and the Supervisors 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 Divisions 7 and 8 of Part XV of the SFO and Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules were set out as follows:



## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

### Domestic Shares

Name	Positions held at the Bank	Nature of interests	Number of Domestic Shares held <i>(Share)</i>	Percentage of the Domestic Shares of the Bank <i>(%)</i>	Percentage of the total share capital of the Bank <i>(%)</i>
WANG Chunsheng (王春生)	Executive Director, President	Beneficial owner	6,500	0.0002	0.0001
LI Yuguo (李玉國)	Non-executive Director, Vice Chairman of the Board	Interest of a controlled corporation	400,000,000 <sup>(1)</sup>	9.3986	6.9005
LIU Xinfu (劉新發)	Non-executive Director	Interest of a controlled corporation	190,000,000 <sup>(2)</sup>	4.4644	3.2777
YANG Lin (楊林)	Employee Representative Supervisor, Chairman of the Board of Supervisors	Beneficial owner	36,274	0.0009	0.0006
HAN Xuefeng (韓學豐)	Employee Representative Supervisor, Vice Chairman of the Board of Supervisors	Beneficial owner	15,681	0.0004	0.0003
SHI Yang (石陽)	Employee Representative Supervisor	Beneficial owner	107,684	0.0025	0.0019
WU Gang (吳剛)	Executive Director, Vice President	Interest of spouse	5,722	0.0001	0.0001
CHEN Zhaogui (陳招貴)	Employee Representative Supervisor	Beneficial owner	146,149	0.0034	0.0025
		Interest of a controlled corporation	200,000,000	4.6993	3.4503

*Notes:*

- (1) Please refer to “Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons” for details.
- (2) Zhongyou TIPO held 190,000,000 domestic shares of the Bank and was owned as to 80% by Liu Xinfu (劉新發). By virtue of the SFO, Liu Xinfu is deemed to be interested in the Shares held by Zhongyou TIPO.

Save as disclosed above, none of the Directors, the chief executive, or the Supervisors held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at 31 December 2017.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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### **FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

### **ARRANGEMENTS FOR DIRECTORS AND SUPERVISORS 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 to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

### **DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS**

Saved for the continuing connected transactions, which are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as at 31 December 2017 and at any time during the Reporting Period, none of the Directors or Supervisors had any interest, whether directly or indirectly, in any transaction, arrangement or contract (excluding service contracts) of significance in relation to the Bank's business to which the Bank, or its associated companies, is a party. None of the Directors and Supervisors has entered into a service contract with the Bank that is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

### **MANAGEMENT CONTRACT**

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

### **DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES**

Mr. LIU Xinfu has served as vice chairman of Shenyang Rural Commercial Bank Co., Ltd. (瀋陽農村商業銀行股份有限公司) (“Shenyang Rural Commercial Bank”) since January 2012. Shenyang Rural Commercial Bank is a financial institution primarily engaging in the commercial banking business in Shenyang. Shenyang Rural Commercial Bank engages in the banking business in Shenyang, which competes with certain aspects of the Bank’s business. On the basis that (i) Mr. Liu, as a non-executive director of Shenyang Rural Commercial Bank, does not participate in the daily operation and management of Shenyang Rural Commercial Bank, (ii) Shenyang Rural Commercial Bank has a management team independent of the Bank, and (iii) Mr. Liu was a non-executive Director of the Bank and did not participate in the Bank’s day-to-day management during the Reporting Period, the Bank and the Directors consider that the roles of Mr. Liu acting as the vice chairman of Shenyang Rural Commercial Bank and a non-executive Director of the Bank at the same time did not have an impact on the business operation of the Bank during the Reporting Period.

### **CORPORATE GOVERNANCE**

We are committed to maintaining high standards in corporate governance. Our approach to applying the principles and provisions of the corporate governance code are set out in the “Corporate Governance Report”. In addition, the Bank’s environmental policies are discussed in the “Social Responsibility Report”.

### **CONNECTED TRANSACTIONS**

Transactions between the Bank and the Bank’s connected persons (as defined under the Listing Rules) will constitute connected transactions of the Bank under Chapter 14A of the Listing Rules. However, the relevant connected transactions can be exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Bank has reviewed all its connected transactions and acknowledged that it had complied with the requirements under Chapter 14A of the Listing Rules.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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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 IASB. Certain related party transactions set out in note 38 to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Listing Rules, but none constitute any disclosable connected transaction as defined under the Listing Rules.

### **REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

The remuneration system for the Directors, Supervisors and senior management adheres to the principle of balancing incentives and restraints, focusing on both short-term and long-term incentives and integrating governmental control with market regulation. Such remuneration system consists of basic salary, annual performance bonus, medium- to long-term incentives, allowances and benefits. The Bank makes a contribution to various statutory pension plans organised by governments at all levels for its Directors, Supervisors and senior management.

### **PUBLIC FLOAT**

Based on the public information available to the Bank and to the knowledge of the Directors, as at the Latest Practicable Date, the Bank had sufficient public float to comply with the minimum public float requirement by the Hong Kong Stock Exchange.

### **TAX RELIEF (H SHAREHOLDERS)**

According to the Enterprise Income Tax Law of the PRC and the related provisions of the implementation rules, both effective on 1 January 2008, the Bank shall withhold the enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the register of H shareholders on 11 June 2018.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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Pursuant to the Notice on the Issues in Relation to the Taxation and Administration of the Personal Income Tax upon the Abolition of the Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《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》(國稅函[2011]348號)), the Bank shall withhold personal income tax for the non-resident individual shareholders.

For those non-resident individual shareholders who reside in Hong Kong, Macau and other countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of 10% (applicable for cash dividend distributed to its residents), the Bank shall withhold the personal 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 for cash dividend distributed to its residents), the Bank shall withhold the personal income tax at the rate of 10% for such shareholders. Should such shareholders demand that amount in excess of the personal 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 Tax Treaty Treatment for Non-resident Taxpayers (Announcement of the State Administration of Taxation [2015] No. 60) (《非居民納稅人享受稅收協議待遇管理辦法》(國家稅務總局公告2015年第60號)) 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 for cash dividend distributed to its residents), the Bank shall withhold the personal 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 not entered into any taxation treaty with the PRC and otherwise, the Bank shall withhold the personal income tax at a rate of 20% for such shareholders.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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According to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Finance Tax [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), jointly published by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission, the Bank shall withhold an individual income tax at the rate of 20% on dividend derived from the H Shares of the Bank acquired through the Shanghai-Hong Kong Stock Connect by mainland individual investors. For dividend received by domestic securities investment funds from investing in the H Shares of the Bank through the Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The Bank will not withhold the income tax on dividend derived from the H Shares of the Bank acquired through the Shanghai-Hong Kong Stock Connect for domestic enterprise investors, and those domestic enterprise investors shall report and pay the relevant tax themselves.

According to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Finance Tax [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), jointly published by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission, the Bank shall withhold an individual income tax at the rate of 20% on dividend derived from the H Shares of the Bank acquired through the Shenzhen-Hong Kong Stock Connect by mainland individual investors. For dividend received by domestic securities investment funds from investing in the H Shares of the Bank through the Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The Bank will not withhold the income tax on dividend derived from the H Shares of the Bank acquired through the Shenzhen-Hong Kong Stock Connect for domestic enterprise investors, and those domestic enterprise investors shall report and pay the relevant tax themselves.

Shareholders are recommended to consult their tax advisers regarding the PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares of the Bank. The Bank assumes no liability and will not deal with any dispute over the above tax withholding triggered by failure to submit proof materials within the stipulated time frame.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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### AUDITORS AND REVIEW OF ANNUAL RESULTS

KPMG and KPMG Huazhen LLP were appointed as the international and domestic auditors of the Bank for 2017, respectively.

KPMG has audited the Bank's financial report for 2017 prepared according to the International Financial Reporting Standards and issued an auditor's report with no qualified opinions. The audit committee of the Bank has reviewed the results and financial reports for the year ended 31 December 2017.

### PERMITTED INDEMNITY PROVISION

The Bank has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) when the report of the Board of Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

By order of the Board  
**Shengjing Bank Co., Ltd.**  
**ZHOU Zhi**  
*Joint Company Secretary*

Shenyang, Liaoning Province, China  
23 March 2018

# REPORT OF THE BOARD OF SUPERVISORS

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In 2017, the Board of Supervisors duly performed its functions and actively and effectively fulfilled its supervisory duties, thoroughly implemented special supervision and inspection, and further strengthened the supervision of risk management and internal control pursuant to the relevant provisions of the Company Law of the PRC, the Guidelines on the Corporate Governance of Commercial Banks, the Guidelines on the Functioning of Supervisory Board of Commercial Banks and the Articles of Association, and played an important role in improving the corporate governance structure and promoting the sound operation of the Bank.

## I. REPORT ON MAJOR WORK

During the Reporting Period, the Board of Supervisors convened seven board meetings and three special committee meetings, considered and approved 32 resolutions, including 2016 work report of the Board of Supervisors, supervision assessment report, report on comprehensive risk management, internal control evaluation report, performance evaluation report for Directors, Supervisors and the senior management, and 2017 interim results announcement, financial report, budget and final accounts report and profit distribution plan. In addition, member of the Board of Supervisors observed the shareholders' general meetings and the meetings of the Board of Directors and heard and received relevant resolutions and reports.

The Board of Supervisors conducted supervision work by multi-channels to improve the effectiveness of supervision. It also conducted various forms of supervision work, actively participated in key work beforehand, and timely got to know the implementation status of key work. The Board of Supervisors participated in the process of business decision-making and timely submitted opinions and suggestions through participation in meetings of senior management such as presidents' meetings, meetings of the President' Office, and executive meetings. It strengthened its communication with regulatory institutions and external audit institutions, and timely obtained inspection opinions and audit results on the business operations of the Bank as important reference for the supervision of business operations.

The Board of Supervisors improved the supervision system and the information reporting mechanism. On top of the improved organisational structure of the Board of Supervisors, it formulated the "Implementation Rules for the Supervision of the Board of Supervisors of Shengjing Bank Co., Ltd.", which clarified the required information, reporting path and time limit requirements of the Board of Supervisors from four aspects, namely performance supervision, financial supervision, internal control supervision and risk supervision, to strengthen the collection of business information, timely keep abreast of business trends, and provide necessary information for the performance of supervisory duties.



## REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

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The Board of Supervisors strengthened the performance supervision over Directors, Supervisors and the senior management and improved the independence of supervision. It integrated the performance supervision over Directors, Supervisors and the senior management into daily supervision work, and kept well abreast of the performance of the Board, senior management, and their members through participating in the formulation and execution of business decision-making, and had been continuously improving the integrity performance records of the Directors, Supervisors and the senior management. It organised and conducted assessment on the senior management by inviting shareholder representatives, independent Directors, and external Supervisors to form an assessment team, convening assessment interviews to listen to work reports of the senior management, examining the assessment process of the senior management, and providing assessment suggestions. Based on the lawful performance of duties of Directors and Supervisors and the operation and management performance of the senior management, the Board of Supervisors proposed a comprehensive evaluation opinion on the performance of the Directors, Supervisors and the senior management and submitted the report to the shareholders' general meeting.

The Board of Supervisors thoroughly implemented special supervision and improved the effectiveness of targeted supervision. During the Reporting Period, the Board of Supervisors further strengthened the efforts on supervision of risk management and internal control, organised and conducted several special supervision activities. It conducted special supervision on quarterly business activities, disposal of major non-performing assets, information technology management, and implementation of supervisory opinions by listening to reports, searching relevant information, inquiring relevant personnel, etc., kept well abreast of the progress of the current work, and proposed pertinent comments and suggestions to improve operation and management level.

The Board of Supervisors continued to follow up rectification work and improve the effectiveness of supervision. During the Reporting Period, the Bank formulated rectification and implementation plans and measures against the problems found in regulatory inspections and self-examination, while the Board of Supervisors strengthened its performance supervision over the Board of Directors, the senior management and their members on rectification work. The office of the Board of Supervisors regularly collected and consolidated relevant information to better implement the rectification, timely got to know the implementation of rectification work and reported to the Board of Supervisors with an aim to speed up the implementation of rectification opinion.

### II. INDEPENDENT OPINIONS ON RELEVANT MATTERS

#### 1. Operations in Compliance with Laws and Regulations

During the Reporting Period, the Board of Directors and the senior management duly performed their duties and vigorously promoted all work of the Bank pursuant to the Company Law of the PRC, the Guidelines on the Corporate Governance of Commercial Banks, and the Articles of Association, which laid a sound foundation for the solid development of the Bank. With far-sighted and scientific decision-making, the Board of Directors further clarified the strategic objectives and development orientation, pointed out the direction for the Bank's business development, and effectively played its role in business decision-making. The senior management had stayed realistic and pragmatic, overcome difficulties and had been fully committed to the promotion of strategic transformation, business restructuring and innovation in business operations, which promoted a positive and progressive development trend in business operations. All main operating indicators for the targets determined by the Board of Directors had been achieved.

#### 2. Truthfulness of Financial Report of the Bank

During the Reporting Period, the Bank has prepared the 2017 financial report according to the International Accounting Standards and relevant provisions of the Listing Rules, and KPMG has audited the same and issued an auditor's report with no qualified opinions. The auditor's report gave a true and objective view of the financial position and operating results of the Bank.

#### 3. Use of Proceeds

During the Reporting Period, the Bank issued tier 2 capital bonds in an amount of RMB6 billion for the replenishment of the Bank's tier 2 capital in accordance with the applicable laws and the approvals from regulatory authorities, and the use of proceeds was consistent with that as stated in the prospectus.

## REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

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### **4. Acquisition and Disposal of Assets by the Bank**

During the Reporting Period, the Bank had no material acquisition or disposal of assets.

### **5. Related-party Transactions**

During the Reporting Period, the Bank's related-party transactions were in compliance with the Administrative Measures on Related-Party Transactions with Insiders and Shareholders of Commercial Banks, were fairly and reasonably priced and were not detrimental to the interests of the Shareholders or the benefits of the Bank.

### **6. Internal Control**

During the Reporting Period, the Bank continued to improve the organisational structure of internal control and pushed forward the establishment of internal control system, which contributed to the steady improvement of internal control level and effective internal control on all material matters. The Board of Supervisors was not aware of any material defect in the Bank's internal control system or its implementation.

### **7. Implementation of the Resolutions of Shareholders' General Meetings**

During the Reporting Period, the Board of Supervisors had no objection to all the resolutions and reports submitted by the Board of Directors to the shareholders' general meetings in 2017, and the Board of Directors and the senior management had duly implemented the resolutions of the shareholders' general meetings.

# SOCIAL RESPONSIBILITY REPORT

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Focusing on the strategic development goal that aims at growing into a “comprehensive, diversified and quality joint-stock commercial bank with a leading position among banks of the same type”, Shengjing Bank proactively practices new development concepts, further promotes the strategic layout of “One Headquarters and Two Centers”, and creates three strategic growth poles with clear functions, complementary advantages and coordinated linkage. Meanwhile, coordinating its own operation and development with serving the real economy, the Bank actively fulfills its social responsibilities as a financial institution by persistently adhering to the market positioning aimed to “serve the local communities, serve small and medium-sized enterprises and serve the general public”, continuously strengthening its capabilities of capital absorption, aggregation and radiation, and investing and providing impetus, by leveraging the institutional mechanism and decision-making efficiency of the headquarters, vigorously supporting regional economy restructuring and industrial transformation and upgrading, and striving to improve its competitiveness in the market and the ability to create value.

## **I. BOOSTING REGIONAL ECONOMIC GROWTH AND SUPPORTING THE DEVELOPMENT OF REAL ECONOMY AND SUPPLY-SIDE REFORM**

Focusing on the major regional development strategy, the Bank carries out in-depth implementation of the decisions and arrangements of the supply-side structural reform by constantly optimising the direction and structure of loans, proactively supporting the major infrastructure construction projects that have been included in the “13th Five-Year Special Plan” and the three-year rolling implementation plan for the rejuvenation of the old industrial bases in Northeast China with priority given to the financing requirements of major projects and key engineering projects, supporting the reform of state-owned enterprises and the policies of reducing overcapacity, destocking, deleveraging, reducing costs and shoring up weak growth areas, and fully supporting the structural transformation of regional economy and industrial optimisation and upgrading.

The Bank continuously optimises the ideal and methods to serve the development of the real economy, and promotes the capability to serve the real economy by obtaining the qualification for the pilot program of direct financing tools of wealth management, and becoming the first urban commercial bank in Northeast China to obtain the qualification for the pilot program of wealth management plan and direct financing tools of wealth management; it innovates financing guarantee methods by launching trademark and patent pledged, accounts receivable pledged, stock pledged loans and other new businesses, which have improved the administration methods for warehouse receipt pledge and patent pledge, further enriched business varieties, and broadened the financing channels for the enterprises.

## SOCIAL RESPONSIBILITY REPORT (CONTINUED)

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The Bank proactively supports the transformation and upgrading of the equipment manufacturing enterprises by increasing capital investments in advanced equipment manufacturing enterprises that have independent innovation capabilities and advanced manufacturing technologies and play a leading role in the upgrading of industrial structure. The Bank also supports the technological transformation and transformation and upgrading of enterprises, and the development of small and medium-sized and micro enterprises in the upstream and downstream of the industrial chain.

The Bank integrates the concept of environmental protection into various operation and management activities by proactively implementing green credit policies, striving to establish a green credit management system, strengthening credit support for clean energy, wastewater treatment, low-carbon emissions and other industries, and meeting the financing requirements of key projects and important enterprises of energy-saving and emission reduction, so as to vigorously support green, recycling and low-carbon economic development.

## II. VIGOROUSLY DEVELOPING INCLUSIVE FINANCE AND ESTABLISHING BRAND IMAGE

The Bank has been actively practicing the concept of inclusive finance, adhering to the responsibility of providing financial services for people's well-being, continuously enhancing its financial support to infrastructure construction related to social well-being and urban public services and actively supporting the development and construction of infrastructures for social welfare, including water, electricity, gas, heating, public transportation, medical care and hygiene and affordable housing so as to further build up a brand image featuring financial services for people's well-being.

Adhering to the business philosophy of inclusive finance, the Bank continues to increase its support to weak areas such as small and micro enterprises, constantly innovates its business categories, expands its service channels, and actively commences business cooperation with high-quality tax-paying small and micro enterprises. It also supports the development of small and micro enterprises such as upstream and downstream small and micro enterprises of core customers, "Entrepreneurship and Innovation" enterprises, technology enterprises and those in "factories, commercial districts, science and technology parks".

Shengjing Bank continues to increase its financial support to agricultural enterprises and continues to promote financial services for agricultural enterprises. It guided and promoted six rural banks to "establish a foothold at county-level and support farmers and small-sized enterprises" so as to improve the service level and reduce the financing cost for "agriculture, rural areas and farmers", and practice the concept of inclusive finance.

### **III. UNSWERVINGLY SERVING GENERAL PUBLIC AND ESTABLISHING PUBLIC REPUTATION**

The Bank has been actively building an intelligent financial service system and optimising the layout of its outlets. It expanded the online and offline intelligent service channels, launched the online business hall and mobile payment functions such as two-dimensional codes, cloud bills and no card payment, and commenced specialised operation of WeChat Bank to further promote the construction of a multi-level and omni-channel financial service system.

### **IV. ACTIVELY FULFILLING TAX OBLIGATIONS AND PARTICIPATING IN SOCIAL PHILANTHROPY**

The total tax payment of the Bank for the year 2017 amounted to RMB3.693 billion, while the tax payment for Shenyang area, where the head office is located, amounted to RMB2.874 billion, ranked the first tax payer among the financial institutions in Liaoning Province and ranked top 3 among all tax payers in Shenyang City for consecutive years. Meanwhile, Shengjing Bank gives full play to its function of serving the real economy, actively supports and promotes the development of enterprises in the region, to drive the growth in corporate tax revenue and boost taxation growth in the region.

While continuing to achieve fruitful business achievements, Shengjing Bank has always remembered its initial determination, makes contribution to the society with gratitude and actively undertakes social responsibilities. The Bank organised internal supportive activities to show its care and condolences and gave warmth by distributing aid funds of RMB234,000 to 87 employees in difficulties. The Bank actively supported social philanthropy and made a donation of RMB2.38 million to the public.

### **V. DEEPENING THE PROMOTION OF PROTECTION OF CONSUMER RIGHTS AND BECOMING A RESPONSIBLE BANK**

In 2017, the Bank particularly organised and implemented the project of promoting 2017 as a year for further consumer rights protection and enhanced services, strengthened the setup of demonstration bases and volunteer teams for financial knowledge education, vigorously carried out activities to popularize and promote all kinds of financial knowledge, showed extra care for special groups, carried out work on the protection of personal information and information disclosure, enhanced the management of complaints, and continuously enhanced level of customer right protection work and improved customer satisfaction, which allowed the Bank to keep on attaining the highest grades in the annual performance appraisal in terms of customer right protection conducted by regulatory authorities.

# INTERNAL CONTROL

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Regarding internal control, the Bank builds a relatively well-established internal control system that is in line with its development strategies, business scale, business scope and risk preference, establishes an efficient organisational structure for internal control with checks and balances, and puts in place an all-encompassing, effective and multi-level internal control system and relevant procedures, which are refined and enhanced in the course of business practices on ongoing basis to ensure sound and effective internal control and improved risk management and internal control capabilities. These efforts led to sound and sustained business operation in an orderly way and effective prevention of operating risks.

Decision-making level: the Board of Directors of the Bank is responsible for the establishment and implementation of an adequate and effective internal control system for ensuring the prudent operation of the Bank under the framework of laws and policies, specifying and determining the acceptable level of risks, ensuring that necessary measures on risk control are taken by the senior management, and supervising the senior management in monitoring and assessing the adequacy and effectiveness of the internal control system.

Execution level: the senior management of the Bank is responsible for the execution of decisions made by the Board of Directors; it formulates systematic policies, procedures and methods and adopts corresponding risk control measures based on the acceptable level of risks determined by the Board of Directors; it establishes and improves internal organisational structure to ensure the effective performance of all duties under the internal control system, and it organizes monitoring and evaluation on the adequacy and effectiveness of the internal control system.

Supervision and evaluation level: the Board of Supervisors of the Bank is responsible for supervising the improvement of the internal control system by the Board of Directors and the senior management and supervising the fulfillment of the internal control duties by the Board of Directors, the senior management and their members.

## INTERNAL CONTROL MEASURES

1. The Bank makes continuous efforts to establish a modernised corporate governance mechanism that operates independently with checks and balances, which ensures the leading role of the Board of Directors in strategic management, risk management and operational development of the Bank, and the fulfilment by the Board of Supervisors and its special committees of their duties in supervising internal control, risk management and financial management and the performance of duties by the directors, supervisors and the senior management, so as to secure the sustainable and healthy development of the Bank.

## INTERNAL CONTROL (CONTINUED)

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2. The Bank establishes and improves its internal control system, sets up a comprehensive, systematic and standard business system and management system in connection with various business activities and management activities and conducts regular evaluation, so as to reasonably determine a risk control point for various business activities and management activities based on the risk evaluation results and through a way combining manual control with automatic control and preventive control with detective control, and then takes appropriate control measures, and implements standard and consistent business procedures and management procedures to ensure standard operation.
3. The Bank establishes an internal control system characterised by clear division of labor and mutually binding functions of front, middle and back offices, which meets the requirements of professionalism and integration, and continuously formulates and improves the procedures for risk identification and evaluation according to the actual needs in the course of operation and management. Also, the Bank improves the comprehensive risk management system which covers all staff and all procedures and strengthens the identification, monitoring and evaluation of credit risks, market risks, liquidity risks and operational risks, etc., so as to achieve proactive and forward-looking risk management on various businesses and safeguard the sound operation of business.
4. The Bank defines the responsibilities and power of different departments and positions, forms standard description of the responsibilities and power of different departments and positions, identifies corresponding reporting routes with appropriate allocation of positions, implements rotation and compulsory leave system for important positions and employees and strengthens supervision and review of employees' behavior.
5. The Bank establishes a standardised and regularised information security control system and inputs more in Internet finance, which gradually achieves systematic and automatic control over business and management activities through an effective combination of internal control process with business operational system and information management system.
6. The Bank builds a supervision system for internal control combining "on-site and off-site", "regular and special", "self and external" examinations and devotes greater efforts in the inspection and supervision on businesses. The Bank formulates and improves risk identification and evaluation procedures on a continuing basis and strengthens the identification, monitoring and evaluation in respect of various risks. In light of operational capacity, level of management, risk status and business development needs of different branches and sub-branches and various departments, the Bank sets up corresponding authorization system and makes necessary adjustments in a flexible manner.



# REPORT OF THE INDEPENDENT AUDITORS

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## **Independent auditor's report to the shareholders of Shengjing Bank 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 Shengjing Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 160 to 326, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 ("HKSAAs") 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 PRC, 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.

# REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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## IMPAIRMENT OF LOANS AND RECEIVABLES

Refer to note 19 and note 20(c) to the consolidated financial statements and the accounting policies on page 216 to page 231.

### The Key Audit Matter

Loans and receivables include both loans and advances to customers and financial investments classified as loans and 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 impairments were derived from collective assessment models, where the loans and receivables were unsecured or where the loans and receivables were subject to potential collateral shortfalls.

### How the matter was addressed in our audit

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

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

## REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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### IMPAIRMENT OF LOANS AND RECEIVABLES (Continued)

Refer to note 19 and note 20(c) to the consolidated financial statements and the accounting policies on page 216 to page 231.

#### The Key Audit Matter

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.

#### How the matter was addressed in our audit

- evaluating the validity of the models used and assumptions adopted in the Group's calculation of collective provisions for impairment losses by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Group's other internal records and our prior year records. As part of these procedures, we challenged the Group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We 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;

## REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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### IMPAIRMENT OF LOANS AND RECEIVABLES (Continued)

Refer to note 19 and note 20(c) to the consolidated financial statements and the accounting policies on page 216 to page 231.

#### The Key Audit Matter

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

#### How the matter was addressed in our audit

- assessing the individual provisions for impairment losses by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic slowdown with reference to the borrowers with adverse press coverage. We also selected samples based on other risk criteria and from the Group's overdue report. We selected further samples for credit review from loans classified as "Special Mention" or "Substandard"; and
- performing credit review procedures for the sample of loans and receivables selected as mentioned above, which included making enquiries of the credit managers about the customers' business operations, reviewing the customers' financial information, researching market information about the customers' businesses, evaluating management's assessment of the value of any collateral held, assessing the forecast cash flows for impaired loans and receivables, challenging the viability of the Group's recovery plans, comparing management's valuation of collateral to market prices or other available data, evaluating the timing and means of realisation of collateral and considering other sources of repayment asserted by management.

# REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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## CONSOLIDATION OF STRUCTURED ENTITIES

Refer to note 42 and note 43 to the consolidated financial statements and the accounting policies on page 310 to page 313.

### 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;
  - 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;

## REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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### CONSOLIDATION OF STRUCTURED ENTITIES (Continued)

Refer to note 42 and note 43 to the consolidated financial statements and the accounting policies on page 310 to page 313.

#### The Key Audit Matter

As at 31 December 2017, the carrying amount of the Group's non-equity interests in structured entities sponsored by third party institutions which were not consolidated by the Group was RMB239,514 million whilst, the amounts of assets held by structured entities sponsored by the Group which the Group did and did not consolidate but in which it held an non-equity interest were RMB3,165 million and RMB43,702 million, respectively.

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

## REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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### **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 these 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.

## REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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### 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 HKSA's 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 HKSA's, 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.



## REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 Leung Tat Ming.

#### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

23 March 2018

# 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	2017	2016
Interest income		42,277,528	36,055,533
Interest expense		(30,201,911)	(22,837,867)
<b>Net interest income</b>	3	12,075,617	13,217,666
Fee and commission income		1,877,744	2,121,903
Fee and commission expense		(264,986)	(207,996)
<b>Net fee and commission income</b>	4	1,612,758	1,913,907
Net trading (losses)/gains	5	(1,121,332)	191,051
Net gains arising from investments	6	151,085	892,217
Net foreign exchange gains/(losses)		475,938	(151,337)
Other operating income	7	55,617	50,372
<b>Operating income</b>		13,249,683	16,113,876
Operating expenses	8	(3,617,442)	(3,730,598)
Impairment losses on assets	11	(1,403,284)	(3,675,411)
<b>Profit before taxation</b>		8,228,957	8,707,867
Income tax expense	12	(654,818)	(1,829,575)
<b>Profit for the year</b>		7,574,139	6,878,292
<b>Net profit attributable to:</b>			
Equity shareholders of the Bank		7,580,055	6,864,520
Non-controlling interests		(5,916)	13,772
		7,574,139	6,878,292

The notes on pages 169 to 326 form part of these financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

*For the year ended 31 December 2017  
(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	2017	2016
<b>Net profit</b>		7,574,139	6,878,292
<b>Other comprehensive income:</b>			
Items that will not be reclassified to profit or loss			
– Remeasurement of net defined benefit liability		(608)	(342)
Items that may be reclassified subsequently to profit or loss			
– Available-for-sale financial assets:			
net movement in the fair value reserve	34(d)	(243,331)	(715,207)
<b>Other comprehensive income net of tax</b>		(243,939)	(715,549)
<b>Total comprehensive income</b>		7,330,200	6,162,743
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		7,336,116	6,148,971
Non-controlling interests		(5,916)	13,772
		7,330,200	6,162,743
Basic and diluted earnings per share (in RMB)	13	1.31	1.18

The notes on pages 169 to 326 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2017	31 December 2016
<b>Assets</b>			
Cash and deposits with central bank	14	84,201,957	71,375,747
Deposits with banks and other financial institutions	15	35,414,260	90,789,790
Precious metals		274,310	–
Placements with banks and other financial institutions	16	34,327,733	21,138,110
Derivative financial assets	17	429,386	276,546
Financial assets held under resale agreements	18	20,339,752	16,039,394
Loans and advances to customers	19	271,782,787	228,880,732
Financial investments:			
Available-for-sale financial assets	20(a)	103,729,104	46,328,907
Held-to-maturity investments	20(b)	224,536,165	171,504,761
Loans and receivables	20(c)	238,100,568	245,532,030
Property and equipment	22	5,357,249	4,808,579
Deferred tax assets	23	1,973,802	1,411,125
Other assets	24	10,150,358	7,396,926
<b>Total assets</b>		<b>1,030,617,431</b>	<b>905,482,647</b>
<b>Liabilities</b>			
Borrowings from central bank	25	48,160,000	118,800,000
Deposits from banks and other financial institutions	26	153,651,596	143,378,530
Placements from banks and other financial institutions	27	51,323,948	38,940,901
Financial liabilities at fair value through profit or loss		18,553,887	–
Derivative financial liabilities	17	1,268,879	14,206
Financial assets sold under repurchase agreements	28	75,623,265	40,285,591
Deposits from customers	29	473,580,808	415,246,159
Income tax payable		218,681	1,022,797
Debt securities issued	30	140,920,240	87,289,181
Other liabilities	31	15,060,471	14,130,656
<b>Total liabilities</b>		<b>978,361,775</b>	<b>859,108,021</b>

The notes on pages 169 to 326 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2017  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2017	31 December 2016
<b>Equity</b>			
Share capital	33	5,796,680	5,796,680
Capital reserve	34	11,855,505	11,855,505
Surplus reserve	34	5,352,502	4,666,968
General reserve	34	11,034,031	9,267,100
Fair value reserve	34	(335,375)	(92,044)
Deficit on remeasurement of net defined benefit liability	34	(6,076)	(5,468)
Retained earnings	34	17,984,108	14,305,688
<b>Total equity attributable to equity shareholders of the Bank</b>		51,681,375	45,794,429
<b>Non-controlling interests</b>		574,281	580,197
<b>Total equity</b>		52,255,656	46,374,626
<b>Total liabilities and equity</b>		1,030,617,431	905,482,647

Approved and authorised for issue by the board of directors on 23 March 2018.

**Zhang Qiyang**

*Chairman of Board of Directors*

**Sun Yongsheng**

*Vice President*

**Liu Zhiyan**

*Chief Financial Officer*

**Company chop**

The notes on pages 169 to 326 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	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2017</b>		5,796,680	11,855,505	4,666,968	9,267,100	(92,044)	(5,468)	14,305,688	45,794,429	580,197	46,374,626
Profit for the year		-	-	-	-	-	-	7,580,055	7,580,055	(5,916)	7,574,139
Other comprehensive income		-	-	-	-	(243,331)	(608)	-	(243,939)	-	(243,939)
Total comprehensive income		-	-	-	-	(243,331)	(608)	7,580,055	7,336,116	(5,916)	7,330,200
Appropriation of profit:											
- Appropriation to surplus reserve	35	-	-	685,534	-	-	-	(685,534)	-	-	-
- Appropriation to general reserve (Note (i))	35	-	-	-	1,766,931	-	-	(1,766,931)	-	-	-
- Cash dividends	35	-	-	-	-	-	-	(1,449,170)	(1,449,170)	-	(1,449,170)
Subtotal		-	-	685,534	1,766,931	-	-	(3,901,635)	(1,449,170)	-	(1,449,170)
<b>Balance at 31 December 2017</b>		<b>5,796,680</b>	<b>11,855,505</b>	<b>5,352,502</b>	<b>11,034,031</b>	<b>(335,375)</b>	<b>(6,076)</b>	<b>17,984,108</b>	<b>51,681,375</b>	<b>574,281</b>	<b>52,255,656</b>

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB3,577 thousand.

The notes on pages 169 to 326 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016  
(Expressed in thousands of Renminbi, unless otherwise stated)

	/Note	Attributable to equity shareholders of the Bank							Total	Non-controlling interests	Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings			
<b>Balance at 1 January 2016</b>		5,796,680	11,855,505	3,893,846	6,176,638	623,163	(5,126)	12,927,822	41,268,528	446,425	41,714,953
Profit for the year		-	-	-	-	-	-	6,864,520	6,864,520	13,772	6,878,292
Other comprehensive income		-	-	-	-	(715,207)	(342)	-	(715,549)	-	(715,549)
Total comprehensive income		-	-	-	-	(715,207)	(342)	6,864,520	6,148,971	13,772	6,162,743
Changes in share capital											
- Non-controlling interests of a new subsidiary		-	-	-	-	-	-	-	-	120,000	120,000
Appropriation of profit:											
- Appropriation to surplus reserve	35	-	-	773,122	-	-	-	(773,122)	-	-	-
- Appropriation to general reserve (Note (i))	35	-	-	-	3,090,462	-	-	(3,090,462)	-	-	-
- Cash dividends	35	-	-	-	-	-	-	(1,623,070)	(1,623,070)	-	(1,623,070)
Subtotal		-	-	773,122	3,090,462	-	-	(5,486,654)	(1,623,070)	-	(1,623,070)
<b>Balance at 31 December 2016</b>		<b>5,796,680</b>	<b>11,855,505</b>	<b>4,666,968</b>	<b>9,267,100</b>	<b>(92,044)</b>	<b>(5,468)</b>	<b>14,305,688</b>	<b>45,794,429</b>	<b>580,197</b>	<b>46,374,626</b>

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB99 thousand.

The notes on pages 169 to 326 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)

	Note	2017	2016
<b>Cash flows from operating activities</b>			
Profit before tax		8,228,957	8,707,867
<i>Adjustments for:</i>			
Impairment losses on assets		1,403,284	3,675,411
Depreciation and amortisation		371,278	328,020
Unwinding of discount		(110,278)	(43,380)
Unrealised foreign exchange gains		(584,048)	(51,803)
Net gains on disposal of long-term assets		(15,067)	(55)
Dividend income		(38,601)	(1,120)
Net trading losses/(gains) of financial assets at fair value through profit or loss		1,123,275	(191,051)
Net gains arising from investments		(112,484)	(891,097)
Issuing cost of debt securities		4,000	11,200
Interest expense on debt securities issued		5,991,399	2,888,904
Interest income on financial investments and financial assets at fair value through profit or loss		(23,529,703)	(18,468,801)
		(7,267,988)	(4,035,905)
<i>Changes in operating assets</i>			
Net increase in deposits with central bank		(6,736,279)	(4,881,556)
Net decrease in deposits and placements with bank and other financial institutions		20,799,847	8,285,279
Net increase in loans and advances to customers		(44,105,634)	(40,053,863)
Net decrease in financial assets held under resale agreements		–	4,897,158
Net (increase)/decrease in other operating assets		(1,925,986)	2,608,670
		(31,968,052)	(29,144,312)

The notes on pages 169 to 326 form part of these financial statements.



## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*For the year ended 31 December 2017  
(Expressed in thousands of Renminbi, unless otherwise stated)*

Note	2017	2016
<b>Cash flows from operating activities (continued)</b>		
<i>Changes in operating liabilities</i>		
Net (decrease)/increase in borrowings from central bank	(70,640,000)	112,000,000
Net increase in deposits and placements from banks and other financial institutions	22,656,113	70,331,809
Net increase/(decrease) in financial assets sold under repurchase agreements	35,337,674	(6,799,977)
Net increase in deposits from customers	58,334,649	12,867,073
Income tax paid	(1,940,298)	(2,292,663)
Net increase in other operating liabilities	21,741,641	1,097,324
	65,489,779	187,203,566
<b>Net cash flows generated from operating activities</b>	26,253,739	154,023,349
<b>Cash flows from investing activities</b>		
Proceeds from disposal and redemption of investments	1,820,318,438	587,903,357
Proceeds from disposal of property and equipment and other assets	15,518	500
Payments on acquisition of investments	(1,902,017,795)	(719,744,086)
Payments on acquisition of property and equipment, intangible assets and other assets	(931,983)	(893,954)
<b>Net cash flows used in investing activities</b>	(82,615,822)	(132,734,183)

The notes on pages 169 to 326 form part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
<b>Cash flows from financing activities</b>			
Capital injection from non-controlling interests of a new subsidiary	36(b)	–	120,000
Net proceeds from new debt securities issued	36(b)	486,032,509	149,131,940
Repayment of debt securities issued	36(b)	(432,405,450)	(140,339,395)
Interest paid on debt securities issued	36(b)	(5,974,008)	(2,824,038)
Dividends paid		(1,501,127)	(1,540,573)
		<u>46,151,924</u>	<u>4,547,934</u>
<b>Net cash flows generated from financing activities</b>			
		<u>(785,612)</u>	<u>131,242</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		<u>(10,995,771)</u>	<u>25,968,342</u>
<b>Net increase in cash and cash equivalents</b>			
		<u>92,555,618</u>	<u>66,587,276</u>
<b>Cash and cash equivalents as at 1 January</b>			
		<u>81,559,847</u>	<u>92,555,618</u>
<b>Cash and cash equivalents as at 31 December</b>			
	36(a)	<u>81,559,847</u>	<u>92,555,618</u>
<b>Net cash flows generated from operating activities include:</b>			
Interest received		<u>17,649,972</u>	<u>19,198,198</u>
Interest paid (excluding interest expense on debt securities issued)		<u>(22,221,861)</u>	<u>(18,176,494)</u>

The notes on pages 169 to 326 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 1 BACKGROUND INFORMATION

Shengjing Bank Co., Ltd. (the “Bank”), which was formerly known as Shenyang City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 10 September 1997 with the approval of the People’s Bank of China (the “PBOC”) of the PRC according to the notices YinFu [1996] No. 362 “Approval upon the Preparing of Shenyang City Cooperative Bank” and YinFu [1997] No.149 “Approval upon the Opening of Shenyang City Cooperative Bank”.

The Bank changed its name from Shenyang City Cooperative Bank Co., Ltd. to Shenyang Commercial Bank Co., Ltd. according to LiaoyinFuZi [1998] No. 78 issued by Liaoning Branch of the PBOC on 2 June 1998 and ShenYinFu [1998] No.103 issued by Shenyang Branch of the PBOC on 29 June 1998. The Bank changed its name from Shenyang Commercial Bank Co., Ltd. to Shengjing Bank Co., Ltd. according to YinJianFu [2007] No. 68 issued by the China Banking Regulatory Commission (the “CBRC”) of the PRC on 13 February 2007.

The Bank obtained its financial institution licence No. B0264H221010001 from the CBRC Liaoning Branch. The Bank obtained its business license No. 210100000010442 from Shenyang Provincial Administration of Industry and Commerce. The registered office of the Bank is located at No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC. In December 2014, the Bank’s H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 02066). As at 31 December 2017, the share capital of the Bank is RMB5,796.68 million.

The Bank has 18 branches in Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang and Tieling as at 31 December 2017. The principal activities of the Bank and its subsidiaries (collectively referred to as the “Group”) are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the CBRC. The Bank mainly operated 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance and basis of preparation

The Group has prepared the financial statements, which comprise the consolidated statement of financial position of the Group as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (the “financial statements”) in accordance with International Financial Reporting Standards (“IFRSs”) and related interpretations, issued by the International Accounting Standards Board (the “IASB”), and the disclosure requirements 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.

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

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, 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 judgments 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 recognised 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 45.

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(f).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Changes 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 36(b) 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.

#### (c) Subsidiaries and non-controlling interests

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Subsidiaries and non-controlling interests (Continued)

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

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

#### (d) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at 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 ruling at the transaction dates.

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 assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates ruling at the dates the fair value is determined; the exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognised in fair value reserve.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) 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.

#### (f) Financial instruments

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

A financial asset or financial liability is recognised 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.

Financial assets and financial liabilities are categorised as follows:

- *Financial assets and financial liabilities at fair value through profit or loss*

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, it is managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

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

- *Financial assets and financial liabilities at fair value through profit or loss (Continued)*

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 recognised 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:

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) 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:

- (1) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (3) 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.

Subsequent to initial recognition, loans and receivables are stated at amortised 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

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

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

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 recognised 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 derecognised, the cumulative gain or loss in other comprehensive income is reclassified to 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 amortised cost using the effective interest method.

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

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognised in profit or loss. Objective evidence of impairment in a 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

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

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 reorganisation;
  - 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 recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

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

- *Loans and receivables (Continued)*

Individual assessment (Continued)

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 collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

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

- *Loans and receivables (Continued)*

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 utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgment based on management's historical experience.

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

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

The collective impairment loss is assessed after taking into account:

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

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

- *Loans and receivables (Continued)*

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

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

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised 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 recognised, 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 amortised cost at the date of the reversal had the impairment not been recognised.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

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

- *Loans and receivables (Continued)*

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

When the Group determines that a loan or receivable has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan or receivable is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered is recognised 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.

- *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 recognised 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 recognised, 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 amortised cost at the date of the reversal had the impairment not been recognised.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

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

- *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 recognised in other comprehensive income is reclassified to profit or loss even though the financial asset has not been derecognised.

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

If, after an impairment loss has been recognised 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 recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an equity instrument classified as available-for-sale measured at fair value is not reversed through profit or loss but recognised directly in other comprehensive income.

For investments in equity instruments carried 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 recognised in profit or loss. Impairment losses for equity instruments carried at cost are not reversed.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

##### *(iii) Derecognition of financial assets and financial liabilities*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are financial assets sale and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial instruments (Continued)

##### (iv) *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 recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

##### (v) *Derivative financial instruments*

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in profit or loss.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **(g) 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 amortised 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 amortised cost.

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

#### **(h) Fair value measurement**

Unless otherwise stated, the Group measure the fair value based on below principles:

Fair value represents 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.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Three valuation techniques mainly include the market approach, the income approach and the cost approach.

#### **(i) Associates**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Associates (Continued)

An investment in an associate is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate is included in the consolidated financial statements from the date that significant influence commences until the date that significant influence ends.

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(f)).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Property and equipment

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(n)). Construction in progress (“CIP”) is stated in the statements of financial position at cost less impairment loss (Note 2(n)).

The cost of a purchased property and equipment asset 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. 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, each part is depreciated separately.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised 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 recognised in profit or loss on the date of retirement or disposal.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Property and equipment (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:

	Estimated useful lives	Estimated net residual value	Depreciation rate
Premises	20–30 years	3%	4.85%–3.23%
Office equipment	5 years	3%	19.40%
Leasehold improvement	5–10 years	0%	20.00%–10.00%
Others	3–5 years	3%	32.33%–19.40%

#### (k) Lease

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 or not. An operating lease is a lease other than a finance lease.

##### (i) Operating lease charges

Lease payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent lease payments are recognised as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) Lease (Continued)

##### (ii) *Assets acquired under finance lease*

Where the Group is a lessee under finance leases, an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease, is included in property and equipment as a lease asset. An amount equal to the minimum lease payments is included in liability. The difference between the recorded amount of the leased asset and the recorded amount of the liability shall be accounted for as unrecognised finance charge. The Group recognises financial charge for the current period using the effective interest method. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(j). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n). Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### (l) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment losses (Note 2(n)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Software	5–10 years
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#### (m) Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end 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
- pre-paid interests in leasehold land classified as being held under an operating lease
- intangible assets
- investments in subsidiaries and associates

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

A Cash-Generating Unit (the “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.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the greater of its fair value less costs of disposal and value in use. 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 of disposal 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 value in use 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 current market assessments of the time value of money and the risks specific to the asset.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

An impairment loss is recognised 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 recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

#### (o) Employee benefits

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

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

The defined contribution retirement plans of the Group include the social pension schemes, unemployment insurance and an annuity plan.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Employee benefits (Continued)

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

###### *Social pension schemes*

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor 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 profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

###### *Annuity plan*

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

###### *Housing fund and other social insurances*

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

##### (ii) **Supplementary retirement benefits**

###### *Early retirement plan*

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Employee benefits (Continued)

##### (ii) *Supplementary retirement benefits (Continued)*

###### *Supplementary retirement plan*

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

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits".

#### (p) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items that are recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable calculated at the applicable tax rate on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

At the end 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 realise the asset and settle the liability simultaneously.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (p) Income tax (Continued)

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 recognised 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 recognised 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). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the end of the reporting period, the amount of deferred tax recognised is measured based on the expected manner of realisation 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 realised or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at the end 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 utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end 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 set 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 intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities, simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (q) Financial guarantees issued, provisions and contingent liabilities

##### (i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (the “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 recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position in accordance with Note 2(q)(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 recognised 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 stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **(r) Fiduciary activities**

The Group acts in fiduciary activities 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 (the “entrusted funds”) to the Group, and the Group grants loans to third parties (the “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.

#### **(s) 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 recognised 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 recognised 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 amortisation 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Income recognition (Continued)

##### (i) *Interest income (Continued)*

The effective interest method is a method of calculating the amortised 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 recognised 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 recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

##### (iii) *Other income*

Other income is recognised on an accrual basis.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Income recognition (Continued)

##### *(iv) Government grants*

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. Government grants related to an asset are initially recognised as deferred income at fair value and then recognised in profit or loss as other income on a straight-line basis over the useful life of the asset. Government grants that compensate the Group for expenses incurred are recognised in profit or loss in the periods in which the expenses are recognised.

#### (t) Expenses recognition

##### *(i) Interest expenses*

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

##### *(ii) Other expenses*

Other expenses are recognised on an accrual basis.

#### (u) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the end of the reporting period are not recognised as a liability at the end of the reporting period but disclosed separately in the notes to the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (v) 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (w) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. 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 services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated as "others" segment if they share a majority of these criteria.

### 3 NET INTEREST INCOME

	2017	2016
<b>Interest income arising from</b>		
Deposits with central bank	918,974	862,163
Deposits and placements with banks and other financial institutions	2,296,403	3,092,279
Financial assets at fair value through profit or loss	132,263	184,720
Loans and advances to customers		
– Corporate loans and advances	14,501,129	12,895,429
– Personal loans and advances	499,616	355,299
– Discounted bills	258,844	136,455
Financial assets held under resale agreements	272,859	245,107
Financial investments	23,397,440	18,284,081
Subtotal	42,277,528	36,055,533

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3 NET INTEREST INCOME (Continued)

	2017	2016
<b>Interest expense arising from</b>		
Borrowings from central bank	(2,311,544)	(1,727,404)
Deposits and placements from banks and other financial institutions	(4,351,487)	(3,799,353)
Deposits from customers	(15,898,021)	(14,048,925)
Financial assets sold under repurchase agreements	(1,649,460)	(373,281)
Debt securities issued	(5,991,399)	(2,888,904)
	<u>(30,201,911)</u>	<u>(22,837,867)</u>
<b>Subtotal</b>		
	<u>12,075,617</u>	<u>13,217,666</u>
<b>Net interest income</b>		
Of which:		
Interest income arising from impaired financial assets identified	<u>110,278</u>	<u>43,380</u>

Notes:

- (a) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.
- (b) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended 31 December 2017 amounted to RMB42,145 million (2016: RMB35,871 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2017 amounted to RMB30,202 million (2016: RMB22,838 million).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 NET FEE AND COMMISSION INCOME

	2017	2016
<b>Fee and commission income</b>		
Agency and custody services fees	1,679,156	1,930,858
Settlement and clearing services fees	155,666	156,658
Bank card services fees	42,922	34,387
Subtotal	1,877,744	2,121,903
<b>Fee and commission expense</b>	(264,986)	(207,996)
<b>Net fee and commission income</b>	1,612,758	1,913,907

### 5 NET TRADING (LOSSES)/GAINS

Net trading (losses)/gains include (losses)/gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading purpose and derivative financial instruments.

### 6 NET GAINS ARISING FROM INVESTMENTS

	2017	2016
Dividends from available-for-sale equity investments	38,601	1,120
Net gains on disposal of available-for-sale financial assets	123,302	891,097
Net losses on disposal of held-to-maturity investments	(10,818)	–
Total	151,085	892,217

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 7 OTHER OPERATING INCOME

	2017	2016
Net gains on disposal of property and equipment	15,067	55
Asset-backed securities service fees	14,630	14,628
Government grants	11,060	16,631
Handling charge income	1,519	1,648
Others	13,341	17,410
Total	55,617	50,372

### 8 OPERATING EXPENSES

	2017	2016
Staff costs		
– Salaries, bonuses and allowances	1,541,573	1,442,776
– Pension and annuity	210,036	193,888
– Other social insurance	131,839	133,225
– Housing allowances	83,604	74,377
– Supplementary retirement benefits	973	3,268
– Others	99,367	87,001
Subtotal	2,067,392	1,934,535
Depreciation and amortisation	371,278	328,020
Rental and property management expenses	246,688	215,007
Office expenses	296,697	298,349
Tax and surcharges	143,641	618,822
Other general and administrative expenses (Note(a))	491,746	335,865
Total	3,617,442	3,730,598

Note:

- (a) Auditor's remunerations were RMB5.00 million for the year ended 31 December 2017 (2016: RMB5.00 million).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9 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:

Name	2017						
	Fees	Salaries	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax	Deferred payment	Actual amount of remuneration paid (pre-tax)
<b>Executive directors</b>							
Zhang Qiyang (Note (a))	-	1,672	844	105	2,621	378	2,243
Wang Chunsheng	-	1,785	1,586	140	3,511	396	3,115
Wang Yigong	-	1,200	2,338	140	3,678	252	3,426
Wu Gang	-	1,200	2,342	140	3,682	252	3,430
Sun Yongsheng	-	1,201	2,334	140	3,675	252	3,423
<b>Non-executive directors</b>							
Li Yuguo	19	-	-	-	19	-	19
Qiu Huofa (Note (b))	19	-	-	-	19	-	19
Li Jianwei	37	-	-	-	37	-	37
Zhao Weiqing	19	-	-	-	19	-	19
Liu Xinfu	19	-	-	-	19	-	19
Yang Yuhua (Note (c))	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>							
Yu Yongshun	-	120	81	-	201	-	201
Lau Chi Pang	-	120	75	-	195	-	195
Ba Junyu	-	120	89	-	209	-	209
Sun Hang	-	120	95	-	215	-	215
Ding Jiming	-	120	81	-	201	-	201

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Name	2017						
	Fees	Salaries	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax	Deferred payment	Actual amount of remuneration paid (pre-tax)
<b>Supervisors</b>							
Yang Lin	-	1,785	1,795	140	3,720	396	3,324
Han Xuefeng	-	1,067	1,925	140	3,132	108	3,024
Shi Yang	-	1,067	2,211	141	3,419	180	3,239
Chen Zhaogui	19	-	-	-	19	-	19
Pan Wenge	24	-	-	-	24	-	24
Sun Yi	19	-	-	-	19	-	19
Huang Lianguai	-	120	63	-	183	-	183
Zhou Zheren	-	120	63	-	183	-	183
Wen Zhaoye	-	120	69	-	189	-	189
Total	175	11,937	15,991	1,086	29,189	2,214	26,975

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Name	2016						
	Fees	Salaries	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax	Deferred payment	Actual amount of remuneration paid (pre-tax)
<b>Executive directors</b>							
Zhang Yukun (Note (d))	–	1,672	1,300	110	3,082	–	3,082
Wang Chunsheng	–	1,782	1,476	146	3,404	396	3,008
Wang Yigong	–	1,201	2,019	147	3,367	252	3,115
Wu Gang	–	1,200	4,659	158	6,017	252	5,765
Sun Yongsheng	–	1,201	2,019	147	3,367	252	3,115
<b>Non-executive directors</b>							
Li Yuguo	13	–	–	–	13	–	13
Li Jianwei	56	–	–	–	56	–	56
Zhao Weiqing	50	–	–	–	50	–	50
Liu Xinfu	–	–	–	–	–	–	–
Yang Yuhua	56	–	–	–	56	–	56
<b>Independent non-executive directors</b>							
Yu Yongshun	–	120	118	–	238	–	238
Lau Chi Pang	–	120	86	–	206	–	206
Ba Junyu	–	120	155	–	275	–	275
Sun Hang	–	120	111	–	231	–	231
Ding Jiming	–	120	111	–	231	–	231



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Name	2016						
	Fees	Salaries	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax	Deferred payment	Actual amount of remuneration paid (pre-tax)
<b>Supervisors</b>							
Yang Lin	-	1,785	1,526	147	3,458	396	3,062
Han Xuefeng	-	1,047	1,834	146	3,027	108	2,919
Shi Yang	-	1,045	2,123	147	3,315	180	3,135
Chen Zhaogui	19	-	-	-	19	-	19
Pan Wenge	44	-	-	-	44	-	44
Sun Yi	54	-	-	-	54	-	54
Huang Liangkuai	-	120	86	-	206	-	206
Zhou Zheren	-	120	130	-	250	-	250
Wen Zhaoye	-	120	111	-	231	-	231
Total	292	11,893	17,864	1,148	31,197	1,836	29,361

Notes:

- (a) At the Bank's 2016 Shareholders' Meeting on 16 May 2017, Zhang Qiyang was elected as executive director of the Bank.
- (b) At the Bank's 2016 Shareholders' Meeting on 16 May 2017, Qiu Huofa was elected as non-executive director of the Bank.
- (c) At 2 March 2017, Yang Yuhua resigned as non-executive director of the Bank.
- (d) At 24 September 2016, Zhang Yukun resigned as executive director of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2017, the five individuals with highest emoluments did not include director (2016: one director) of the Bank, whose emoluments are disclosed in Note 9. The emoluments for the five (2016: four) non-director highest paid individuals for the year ended 31 December 2017 are as follows:

	2017	2016
Salaries and other emoluments	3,481	2,781
Discretionary bonuses	26,997	19,694
Contributions to pension schemes	720	610
Total	<u>31,198</u>	<u>23,085</u>

The individuals whose emoluments before individual income tax are within the following bands are set out below:

	2017	2016
RMB4,500,001–5,000,000	–	1
RMB5,000,001–5,500,000	2	1
RMB6,000,001–6,500,000	–	1
RMB6,500,001–7,000,000	2	–
RMB7,000,001–7,500,000	1	1
Total	<u>5</u>	<u>4</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 11 IMPAIRMENT LOSSES ON ASSETS

	2017	2016
Loans and advances to customers	1,312,612	2,744,374
Financial investments classified as loans and receivables	134,000	646,000
Others	(43,328)	285,037
Total	<u>1,403,284</u>	<u>3,675,411</u>

### 12 INCOME TAX EXPENSE

#### (a) Income tax for the year:

	Note	2017	2016
Current tax		1,136,182	2,537,295
Deferred tax	23(b)	(481,364)	(707,720)
Total		<u>654,818</u>	<u>1,829,575</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 12 INCOME TAX EXPENSE (Continued)

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2017	2016
Profit before taxation		<u>8,228,957</u>	<u>8,707,867</u>
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		<u>2,057,239</u>	<u>2,176,967</u>
Non-deductible expenses			
– Entertainment expenses		3,948	4,355
– Others		5,670	1,923
		<u>9,618</u>	<u>6,278</u>
Non-taxable income	12(b)(i)	<u>(1,412,039)</u>	<u>(353,594)</u>
Subtotal		654,818	1,829,651
Adjustment for prior years		–	(76)
Income tax		<u>654,818</u>	<u>1,829,575</u>

Note:

- (i) Non-taxable income consists of interest income from the PRC government bonds, public funds and dividends from domestic companies, which are exempted from income tax under the PRC tax regulations.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 13 BASIC AND DILUTED EARNINGS PER SHARE

	2017	2016
Net profit attributable to equity shareholders of the Bank	7,580,055	6,864,520
Weighted average number of ordinary shares (in thousands)	5,796,680	5,796,680
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	1.31	1.18

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

#### (a) Weighted average number of ordinary shares (in thousands)

	2017	2016
Number of ordinary shares as at 1 January	5,796,680	5,796,680
Increase in weighted average number of ordinary shares	—	—
Weighted average number of ordinary shares	<u>5,796,680</u>	<u>5,796,680</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	31 December 2017	31 December 2016
Cash on hand		809,636	642,182
Deposits with central bank			
– Statutory deposit reserves	14(a)	55,896,497	49,579,054
– Surplus deposit reserves	14(b)	26,758,129	20,835,652
– Foreign currency risk reserves	14(c)	631,823	–
– Fiscal deposits		105,872	318,859
Subtotal		83,392,321	70,733,565
Total		84,201,957	71,375,747

- (a) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2017	31 December 2016
Reserve ratio for RMB deposits	13.5%	13.5%
Reserve ratio for foreign currency deposits	5%	5%

The six rural banking subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

The statutory deposit reserves are not available for the Group's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 14 CASH AND DEPOSITS WITH CENTRAL BANK (Continued)

- (c) The foreign currency risk reserves are maintained with the PBOC in accordance with the related notice issued by the PBOC on 31 August 2015. The reserves are payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign currency risk reserves are non-interest bearing and will be repayable in 12 months.

### 15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	31 December 2017	31 December 2016
Deposits in mainland China		
– Banks	32,672,389	89,439,437
– Other financial institutions	4,505	4,290
Deposits outside mainland China		
– Banks	2,737,366	1,346,063
Total	35,414,260	90,789,790

### 16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	31 December 2017	31 December 2016
Placements in mainland China		
– Banks	31,127,733	19,138,110
– Other financial institutions	3,200,000	2,000,000
Total	34,327,733	21,138,110

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments mainly including forwards and swaps.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in any orderly transaction between market participants at measured date.

#### (a) Analysed by nature of contract

	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	123,998,639	278,127	(1,123,073)
Precious metal derivatives	19,267,156	125,169	(119,369)
Interest rate swaps	6,500,000	1,550	(7,460)
Foreign exchange forwards	732,773	24,540	(18,977)
Total	150,498,568	429,386	(1,268,879)

	31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	14,535,389	251,401	(14,206)
Foreign exchange forwards	4,715,668	22,015	–
Precious metal derivatives	145,640	3,130	–
Total	19,396,697	276,546	(14,206)



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

#### (b) Analysed by credit risk-weighted amount

	31 December 2017	31 December 2016
Currency swaps	309,997	36,338
Precious metal derivatives	48,168	365
Interest rate swaps	16,250	–
Foreign exchange forwards	5,266	33,375
Total	379,681	70,078

The credit risk-weighted amount represents the counterparty credit risk associated with derivative transactions and is calculated with reference to the guidelines issued by the CBRC.

### 18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### (a) Analysed by type and location of counterparty

	31 December 2017	31 December 2016
In mainland China		
– Banks	20,339,752	15,244,894
– Other financial institutions	–	794,500
Total	20,339,752	16,039,394

#### (b) Analysed by type of security held

	31 December 2017	31 December 2016
Debt securities held under resale agreements	20,339,752	16,039,394

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS

#### (a) Analysed by nature

	31 December 2017	31 December 2016
Corporate loans and advances	262,549,690	223,598,360
Personal loans and advances		
– Residential mortgage	9,227,270	4,519,168
– Personal consumption loans	3,988,457	2,502,220
– Personal business loans	1,062,927	534,159
– Credit cards	674,173	523,837
– Others	55,372	81,030
Subtotal	15,008,199	8,160,414
Discounted bills	1,955,529	3,657,876
Gross loans and advances to customers	279,513,418	235,416,650
Less: Provision for impairment losses		
– Individually assessed	(2,111,924)	(2,053,429)
– Collectively assessed	(5,618,707)	(4,482,489)
Total provision for impairment losses	(7,730,631)	(6,535,918)
Net loans and advances to customers	271,782,787	228,880,732

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (b) Analysed by economic sector

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	100,926,576	36%	44,694,794
Renting and business activities	43,369,518	16%	18,913,028
Manufacturing	40,540,165	15%	10,573,149
Real estate	28,298,413	10%	26,111,123
Construction	10,241,283	3%	6,387,504
Transportation, storage and postal services	7,529,093	3%	1,087,833
Accommodation and catering	6,151,850	2%	5,567,630
Production and supply of electric power, gas and water	4,624,882	2%	1,804,721
Mining	2,821,800	1%	456,800
Agriculture, forestry, animal husbandry and fishery	2,618,419	1%	365,219
Culture, sports and entertainment	2,527,612	1%	1,044,100
Household and other services	1,696,850	1%	437,150
Public administration and social organisations	180,000	0%	–
Others	11,023,229	3%	2,650,084
Subtotal of corporate loans and advances	262,549,690	94%	120,093,135
Personal loans and advances	15,008,199	5%	12,887,890
Discounted bills	1,955,529	1%	1,955,529
Gross loans and advances to customers	279,513,418	100%	134,936,554

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (b) Analysed by economic sector (Continued)

	31 December 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	73,940,527	31%	35,163,659
Manufacturing	36,474,375	15%	8,314,325
Renting and business activities	34,912,668	15%	19,866,758
Real estate	30,306,590	13%	27,881,390
Transportation, storage and postal services	9,880,743	4%	2,087,371
Construction	7,430,303	3%	4,719,306
Accommodation and catering	5,622,820	2%	5,014,470
Production and supply of electric power, gas and water	4,315,242	2%	1,645,252
Household and other services	3,045,395	1%	1,092,300
Culture, sports and entertainment	2,876,880	1%	1,005,750
Mining	2,183,200	1%	405,200
Agriculture, forestry, animal husbandry and fishery	2,098,825	1%	414,687
Public administration and social organisations	398,000	1%	398,000
Others	10,112,792	5%	2,683,681
Subtotal of corporate loans and advances	223,598,360	95%	110,692,149
Personal loans and advances	8,160,414	3%	6,784,441
Discounted bills	3,657,876	2%	3,657,876
Gross loans and advances to customers	<u>235,416,650</u>	<u>100%</u>	<u>121,134,466</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (b) Analysed by economic sector (Continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitutes 10% or more of gross loans and advances to customers is 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
Wholesale and retail trade	402,498	115,439	2,047,972	707,531	–
Manufacturing	3,251,045	1,807,915	831,555	386,117	–
Real estate	13,922	12,817	633,887	(207,750)	–
Renting and business activities	4,990	1,363	905,844	161,030	–

	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
Wholesale and retail trade	497,053	153,008	1,302,872	529,256	39,916
Manufacturing	2,827,606	1,647,216	606,137	1,523,655	34,031
Real estate	309,062	91,992	762,462	204,559	–
Renting and business activities	–	–	746,177	160,227	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (c) Analysed by type of collateral

	31 December 2017	31 December 2016
Unsecured loans	18,528,124	20,750,551
Guaranteed loans	126,048,740	93,531,633
Loans secured by tangible assets other than monetary assets	109,919,300	101,776,176
Loans secured by intangible assets or monetary assets	<u>25,017,254</u>	<u>19,358,290</u>
Gross loans and advances to customers	<u>279,513,418</u>	<u>235,416,650</u>
Less: Provision for impairment losses		
– Individually assessed	(2,111,924)	(2,053,429)
– Collectively assessed	<u>(5,618,707)</u>	<u>(4,482,489)</u>
Total provision for impairment losses	<u>(7,730,631)</u>	<u>(6,535,918)</u>
Net loans and advances to customers	<u>271,782,787</u>	<u>228,880,732</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (d) Overdue loans analysed by overdue period

	31 December 2017				Total
	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	
Unsecured loans	8,856	2,775	19,412	142	31,185
Guaranteed loans	112,294	546,732	2,441,677	47,096	3,147,799
Loans secured by tangible assets other than monetary assets	1,123,008	86,577	783,500	70,185	2,063,270
Loans secured by intangible assets or monetary assets	–	–	–	70,000	70,000
<b>Total</b>	<b>1,244,158</b>	<b>636,084</b>	<b>3,244,589</b>	<b>187,423</b>	<b>5,312,254</b>
As a percentage of gross loans and advances to customers	0.44%	0.23%	1.16%	0.07%	1.90%

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (d) Overdue loans analysed by overdue period (Continued)

	31 December 2016				Total
	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	
Unsecured loans	5,981	14,035	1,453	224	21,693
Guaranteed loans	1,055,942	2,437,907	100,060	18,789	3,612,698
Loans secured by tangible assets					
other than monetary assets	1,050,053	881,638	322,205	57,738	2,311,634
Loans secured by intangible assets or monetary assets	150,000	310	70,000	-	220,310
<b>Total</b>	<b>2,261,976</b>	<b>3,333,890</b>	<b>493,718</b>	<b>76,751</b>	<b>6,166,335</b>
As a percentage of gross loans and advances to customers	0.96%	1.42%	0.21%	0.03%	2.62%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (e) Loans and advances and provision for impairment losses

	31 December 2017				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	275,357,588	113,032	4,042,798	279,513,418	1.49%
Less: Provision for impairment losses	<u>(5,506,386)</u>	<u>(112,321)</u>	<u>(2,111,924)</u>	<u>(7,730,631)</u>	
Net loans and advances to customers	<u>269,851,202</u>	<u>711</u>	<u>1,930,874</u>	<u>271,782,787</u>	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (e) Loans and advances and provision for impairment losses (Continued)

	31 December 2016				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	231,310,329	108,079	3,998,242	235,416,650	1.74%
Less: Provision for impairment losses	<u>(4,379,900)</u>	<u>(102,589)</u>	<u>(2,053,429)</u>	<u>(6,535,918)</u>	
Net loans and advances to customers	<u>226,930,429</u>	<u>5,490</u>	<u>1,944,813</u>	<u>228,880,732</u>	

Notes:

- (i) Loans and advances collectively assessed for impairment bear relatively insignificant risk of impairment. These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:
- Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
  - Collectively, representing portfolios of homogeneous loans with individual insignificant amount (including personal loans and advances which are graded substandard, doubtful or loss).
- (iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 39(a).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (f) Movements of provision for impairment losses

	2017			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at 1 January	4,379,900	102,589	2,053,429	6,535,918
Charge for the year	1,983,638	73,543	472,843	2,530,024
Release for the year	(857,152)	(54,972)	(305,288)	(1,217,412)
Unwinding of discount	–	–	(110,278)	(110,278)
Write-offs	–	(8,866)	–	(8,866)
Recoveries	–	27	1,218	1,245
As at 31 December	<u>5,506,386</u>	<u>112,321</u>	<u>2,111,924</u>	<u>7,730,631</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (f) Movements of provision for impairment losses (Continued)

	2016			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at 1 January	3,612,734	29,142	286,754	3,928,630
Charge for the year	1,418,847	86,892	2,000,914	3,506,653
Release for the year	(651,681)	(13,186)	(97,412)	(762,279)
Unwinding of discount	–	–	(43,380)	(43,380)
Write-offs	–	(281)	(97,297)	(97,578)
Recoveries	–	22	3,850	3,872
As at 31 December	<u>4,379,900</u>	<u>102,589</u>	<u>2,053,429</u>	<u>6,535,918</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (g) Analysed by geographical sector (Note (i))

	31 December 2017		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	221,554,961	79%	117,075,623
North China	48,442,832	17%	12,114,861
Others	9,515,625	4%	5,746,070
Gross loans and advances to customers	<u>279,513,418</u>	<u>100%</u>	<u>134,936,554</u>

	31 December 2016		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	181,624,687	77%	102,813,182
North China	42,950,877	18%	9,942,138
Others	10,841,086	5%	8,379,146
Gross loans and advances to customers	<u>235,416,650</u>	<u>100%</u>	<u>121,134,466</u>

Note:

- (i) The definitions of the geographical sectors are set out in Note 38(b).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (g) Analysed by geographical sector (Note (i)) (Continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of each geographic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

	31 December 2017		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	3,964,310	2,063,392	4,427,327
North China	160,000	40,148	993,840

	31 December 2016		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	3,732,478	1,955,861	3,482,054
North China	353,211	92,885	772,404

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 FINANCIAL INVESTMENTS

	<i>Note</i>	31 December 2017	31 December 2016
Available-for-sale financial assets	20(a)	103,729,104	46,328,907
Held-to-maturity investments	20(b)	224,536,165	171,504,761
Loans and receivables	20(c)	238,100,568	245,532,030
Total		566,365,837	463,365,698

#### (a) Available-for-sale financial assets

	<i>Note</i>	31 December 2017	31 December 2016
Debt securities at fair value listed outside Hong Kong			
– Government		2,579,626	25,235,064
– Policy banks		18,086,614	13,740,574
– Banks and other financial institutions		24,945,766	404,796
– Corporate		7,661,698	6,564,448
Subtotal		53,273,704	45,944,882
Investment funds		50,071,375	–
Equity investment			
– Unlisted	20(a)(i)	384,025	384,025
Total		103,729,104	46,328,907

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 FINANCIAL INVESTMENTS (Continued)

#### (a) Available-for-sale financial assets (Continued)

The Group reclassified debt securities amounting to RMB9.46 billion out of available-for-sale to held-to-maturity investments during the year ended 31 December 2016, and as at the reclassification date, the estimated amount of cash flows the Group expected to recover was RMB10.44 billion. As at 31 December 2017, the carrying amount of the above debt securities was RMB9.46 billion (31 December 2016: RMB9.46 billion), and the fair value was RMB9.11 billion (31 December 2016: RMB9.29 billion). Except for the above, the Group did not reclassify any other financial investments in and out from available-for-sale category for the year ended 31 December 2016 and 2017.

Note:

- (i) There is no active market for certain available-for-sale unlisted equity investments and it is the Group's intention to dispose of them as opportunities arise.

#### (b) Held-to-maturity investments

	31 December 2017	31 December 2016
Listed outside Hong Kong		
– Government	107,016,384	75,012,016
– Policy banks	91,460,083	65,800,264
– Banks and other financial institutions	25,166,186	29,766,124
– Corporate	893,512	926,357
Total	<u>224,536,165</u>	<u>171,504,761</u>
Fair value of listed securities	<u>218,352,067</u>	<u>170,708,662</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 FINANCIAL INVESTMENTS (Continued)

#### (c) Loans and receivables

	<i>Note</i>	31 December 2017	31 December 2016
Investment management products managed by securities companies		137,276,867	156,798,192
Investment management products under trust scheme		99,736,701	69,940,838
Wealth management products issued by financial institutions		<u>2,500,000</u>	<u>20,072,000</u>
Subtotal	20(c)(i)	239,513,568	246,811,030
Less: Provisions for loans and receivables		<u>(1,413,000)</u>	<u>(1,279,000)</u>
Total		<u><u>238,100,568</u></u>	<u><u>245,532,030</u></u>

#### (i) Analysed by credit risk-bearing party

	31 December 2017	31 December 2016
Loans and receivables		
– Banks and other financial institutions	116,657,958	156,796,192
– Corporate	114,975,610	89,014,838
– Government	<u>7,880,000</u>	<u>1,000,000</u>
Total	<u><u>239,513,568</u></u>	<u><u>246,811,030</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21 INVESTMENTS IN SUBSIDIARIES

#### The Bank

	31 December 2017	31 December 2016
Shenyang Shenbei Fumin Village Bank Co., Ltd. ("Shenyang Shenbei")	35,321	35,321
Shenyang Xinmin Fumin Village Bank Co., Ltd. ("Shenyang Xinmin")	6,230	6,230
Shenyang Faku Fumin Village Bank Co., Ltd. ("Shenyang Faku")	6,262	6,262
Shenyang Liaozhong Fumin Village Bank Co., Ltd. ("Shenyang Liaozhong")	6,097	6,097
Ningbo Jiangbei Fumin Rural Bank Co., Ltd. ("Ningbo Jiangbei")	30,039	30,039
Shanghai Baoshan Fumin Rural Bank Co., Ltd. ("Shanghai Baoshan")	62,208	62,208
Shengjing Bank Consumer Finance Co., Ltd. ("Shengjing Consumer")	180,000	180,000
Total	<u>326,157</u>	<u>326,157</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21 INVESTMENTS IN SUBSIDIARIES (Continued)

As at 31 December 2017, background of the subsidiaries is as follows:

	Notes	Date of incorporation	Place of incorporation, registration and operations	Registered capital	Percentage owned by the Bank	Business sector
Shenyang Shenbei	21(a)	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin	21(b)	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku	21(c)	26/10/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong	21(d)	26/11/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei	21(e)	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan	21(f)	09/09/2011	Shanghai, China	150,000	40%	Banking
Shengjing Consumer		25/02/2016	Liaoning, China	300,000	60%	Consumer finance

Note:

- (a) According to the revised Articles of Association of Shenyang Shenbei approved by the General Meeting held in June 2012, the financial and operational decisions of Shenyang Shenbei were made by the Bank. The Bank also agreed with seven shareholders who held in total 61.34% of ownership and voting power of Shenyang Shenbei that these seven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Shenbei and classified its investment in Shenyang Shenbei as investments in subsidiaries.
- (b) According to the revised Articles of Association of Shenyang Xinmin approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Xinmin were made by the Bank. The Bank also agreed with eight shareholders who held in total 55% of ownership and voting power of Shenyang Xinmin that these eight shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Xinmin and classified its investment in Shenyang Xinmin as investments in subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 21 INVESTMENTS IN SUBSIDIARIES (Continued)

*Note: (Continued)*

- (c) According to the revised Articles of Association of Shenyang Faku approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Faku were made by the Bank. The Bank also agreed with seven shareholders who held in total 50% of ownership and voting power of Shenyang Faku that these seven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Faku and classified its investment in Shenyang Faku as investments in subsidiaries.
- (d) According to the revised Articles of Association of Shenyang Liaozhong approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Liaozhong were made by the Bank. The Bank also agreed with eleven shareholders who held in total 70% of ownership and voting power of Shenyang Liaozhong that these eleven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Liaozhong and classified its investment in Shenyang Liaozhong as investments in subsidiaries.
- (e) According to the revised Articles of Association of Ningbo Jiangbei approved by the General Meetings held in June 2012, the financial and operational decisions of Ningbo Jiangbei were made by the Bank. The Bank also agreed with six shareholders who held in total 50% of ownership and voting power of Ningbo Jiangbei that these six shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Ningbo Jiangbei and classified its investment in Ningbo Jiangbei as investments in subsidiaries.
- (f) According to the revised Articles of Association of Shanghai Baoshan approved by the General Meetings held in June 2012, the financial and operational decisions of Shanghai Baoshan were made by the Bank. The Bank also agreed with four shareholders who held in total 35.33% of ownership and voting power of Shanghai Baoshan that these four shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shanghai Baoshan and classified its investment in Shanghai Baoshan as investments in subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 PROPERTY AND EQUIPMENT

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
<b>Cost</b>						
As at 1 January 2016	2,946,873	530,859	1,851,272	548,733	97,398	5,975,135
Additions	121,387	42,496	571,327	116,583	1,456	853,249
CIP transfers	495,529	58,988	(554,517)	–	–	–
Disposals	–	–	–	(2,114)	(600)	(2,714)
As at 31 December 2016 and 1 January 2017	3,563,789	632,343	1,868,082	663,202	98,254	6,825,670
Additions	37,507	115,206	664,992	81,137	2,659	901,501
CIP transfers	25,614	12,909	(38,523)	–	–	–
Disposals	(4,797)	–	–	(9,745)	–	(14,542)
As at 31 December 2017	3,622,113	760,458	2,494,551	734,594	100,913	7,712,629
<b>Accumulated depreciation</b>						
As at 1 January 2016	(973,981)	(319,741)	–	(337,306)	(75,573)	(1,706,601)
Additions	(147,224)	(60,322)	–	(95,506)	(9,707)	(312,759)
Disposals	–	–	–	1,687	582	2,269
As at 31 December 2016 and 1 January 2017	(1,121,205)	(380,063)	–	(431,125)	(84,698)	(2,017,091)
Additions	(172,389)	(81,808)	–	(93,327)	(4,856)	(352,380)
Disposals	4,653	–	–	9,438	–	14,091
As at 31 December 2017	(1,288,941)	(461,871)	–	(515,014)	(89,554)	(2,355,380)
<b>Net book value</b>						
As at 31 December 2016	2,442,584	252,280	1,868,082	232,077	13,556	4,808,579
As at 31 December 2017	2,333,172	298,587	2,494,551	219,580	11,359	5,357,249

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 PROPERTY AND EQUIPMENT (Continued)

The carrying amount of premises without title deeds as at 31 December 2017 was RMB279.55 million (31 December 2016: RMB255.90 million). The Group is still in the progress of applying the title deeds for the above premises. Management of the Group expected that there would be no significant costs in obtaining the title deeds.

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	31 December 2017	31 December 2016
Held in mainland China		
– Long term leases (over 50 years)	274,522	289,346
– Medium term leases (10–50 years)	1,973,632	2,064,078
– Short term leases (less than 10 years)	85,018	89,160
Total	<u>2,333,172</u>	<u>2,442,584</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 DEFERRED INCOME TAX ASSETS AND LIABILITIES

#### (a) Analysed by nature

	31 December 2017		31 December 2016	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	6,510,970	1,627,742	5,673,171	1,418,292
Change in fair value of derivative financial instruments	839,493	209,873	–	–
Change in fair value of available-for-sale financial assets	447,167	111,792	122,725	30,681
Supplementary retirement benefits	97,579	24,395	110,946	27,737
	<u>7,895,209</u>	<u>1,973,802</u>	<u>5,906,842</u>	<u>1,476,710</u>
Deferred income tax liabilities:				
Change in fair value of derivative financial instruments	–	–	(262,340)	(65,585)
	<u>–</u>	<u>–</u>	<u>(262,340)</u>	<u>(65,585)</u>
Net deferred income tax	<u>7,895,209</u>	<u>1,973,802</u>	<u>5,644,502</u>	<u>1,411,125</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

#### (b) Analysed by movement

	At 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2017
Deferred income tax assets:				
Allowance for impairment losses	1,418,292	209,450	–	1,627,742
Change in fair value of available- for-sale financial assets	30,681	–	81,111	111,792
Change in fair value of derivative financial instruments	–	209,873	–	209,873
Supplementary retirement benefits	27,737	(3,544)	202	24,395
Subtotal	1,476,710	415,779	81,313	1,973,802
Deferred income tax liabilities:				
Change in fair value of derivative financial instruments	(65,585)	65,585	–	–
Subtotal	(65,585)	65,585	–	–
Net deferred income tax	1,411,125	481,364	81,313	1,973,802



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

#### (b) Analysed by movement (Continued)

	At 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2016
Deferred income tax assets:				
Allowance for impairment losses	641,377	776,915	–	1,418,292
Change in fair value of available- for-sale financial assets	–	–	30,681	30,681
Supplementary retirement benefits	31,527	(3,904)	114	27,737
Subtotal	672,904	773,011	30,795	1,476,710
Deferred income tax liabilities:				
Change in fair value of available- for-sale financial assets	(207,721)	–	207,721	–
Change in fair value of financial assets at fair value through profit or loss	(294)	294	–	–
Change in fair value of derivative financial instruments	–	(65,585)	–	(65,585)
Subtotal	(208,015)	(65,291)	207,721	(65,585)
Net deferred income tax	464,889	707,720	238,516	1,411,125

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 24 OTHER ASSETS

	Note	31 December 2017	31 December 2016
Interest receivable	24(a)	8,839,765	6,457,270
Value-added tax retained		260,467	–
Prepayments		159,054	119,848
Settlement and clearing accounts		145,631	20,699
Repossessed assets	24(b)	136,733	136,733
Intangible assets	24(c)	108,088	91,496
Land use rights		61,206	63,549
Long-term deferred expense		4,967	7,632
Others	24(d)	434,447	499,699
Total		<u>10,150,358</u>	<u>7,396,926</u>

#### (a) Interest receivable

	31 December 2017	31 December 2016
Interest receivable arising from:		
– Investments	7,156,463	5,256,338
– Loans and advances to customers	925,057	607,393
– Deposits with banks and other financial institutions	646,733	578,196
– Others	111,512	15,343
Total	<u>8,839,765</u>	<u>6,457,270</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 24 OTHER ASSETS (Continued)

#### (b) Repossessed assets

	31 December 2017	31 December 2016
Land use rights and buildings	136,733	136,733
Subtotal	136,733	136,733
Less: Impairment allowance	–	–
	<u>136,733</u>	<u>136,733</u>

#### (c) Intangible assets

	31 December 2017	31 December 2016
<b>Cost</b>		
As at 1 January	163,432	122,764
Additions	<u>30,482</u>	<u>40,668</u>
As at 31 December	<u>193,914</u>	<u>163,432</u>
<b>Accumulated amortisation</b>		
As at 1 January	(71,936)	(61,555)
Additions	<u>(13,890)</u>	<u>(10,381)</u>
As at 31 December	<u>(85,826)</u>	<u>(71,936)</u>
<b>Net value</b>		
As at 1 January	<u>91,496</u>	<u>61,209</u>
As at 31 December	<u>108,088</u>	<u>91,496</u>

Intangible assets of the Group mainly represent computer software.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 24 OTHER ASSETS (Continued)

#### (d) Others

	31 December 2017	31 December 2016
Receivable due from disposal of non-performing assets (Note (i))	653,754	726,124
Others	92,790	129,000
Subtotal	746,544	855,124
Less: Impairment allowance	(312,097)	(355,425)
	<u>434,447</u>	<u>499,699</u>

Note:

- (i) It represents a receivable from Shenyang City Infrastructure Construction Investment Development Co., Ltd. and the receivable is guaranteed by one of the Bank's shareholder, Shenyang Hengxin State-owned Asset Management Group Co., Ltd.

### 25 BORROWINGS FROM CENTRAL BANK

	31 December 2017	31 December 2016
Borrowings (Note (a))	48,160,000	118,800,000

Note:

- (a) Borrowings from central bank mainly include Medium-term Lending Facility and open market operations.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	31 December 2017	31 December 2016
Deposits in mainland China		
– Banks	71,899,960	26,539,036
– Other financial institutions	<u>81,751,636</u>	<u>116,839,494</u>
Total	<u><u>153,651,596</u></u>	<u><u>143,378,530</u></u>

### 27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	31 December 2017	31 December 2016
Placements in mainland China		
– Banks	48,323,948	38,940,901
– Other financial institutions	<u>3,000,000</u>	<u>–</u>
Total	<u><u>51,323,948</u></u>	<u><u>38,940,901</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

#### (a) Analysed by type and location of counterparty

	31 December 2017	31 December 2016
In mainland China		
– Banks	63,629,195	33,171,221
– Other financial institutions	11,994,070	7,114,370
Total	75,623,265	40,285,591

#### (b) Analysed by type of security held

	31 December 2017	31 December 2016
Debt securities sold under repurchase agreements	74,678,697	39,973,070
Bills sold under repurchase agreements	944,568	312,521
Total	75,623,265	40,285,591

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 29 DEPOSITS FROM CUSTOMERS

	31 December 2017	31 December 2016
Demand deposits		
– Corporate deposits	114,625,939	74,575,104
– Personal deposits	<u>14,551,352</u>	<u>14,398,743</u>
Subtotal	<u>129,177,291</u>	<u>88,973,847</u>
Time deposits		
– Corporate deposits	172,364,434	165,133,167
– Personal deposits	<u>127,528,837</u>	<u>111,842,098</u>
Subtotal	<u>299,893,271</u>	<u>276,975,265</u>
Pledged deposits		
– Acceptances	42,855,818	47,520,550
– Letters of credit	544,109	1,024,603
– Letters of guarantees	542,425	338,867
– Others	<u>322,628</u>	<u>298,208</u>
Subtotal	<u>44,264,980</u>	<u>49,182,228</u>
Inward and outward remittances	<u>245,266</u>	<u>114,819</u>
Total deposits from customers at amortised cost	<u>473,580,808</u>	<u>415,246,159</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 30 DEBT SECURITIES ISSUED

	Note	31 December 2017	31 December 2016
Tier two capital fixed rate debts maturing in May 2024	30(a)	2,200,000	2,200,000
Tier two capital fixed rate debts maturing in December 2025	30(b)	10,000,000	10,000,000
Tier two capital fixed rate debts maturing in December 2027	30(c)	6,000,000	–
Financial fixed rate bonds maturing in August 2019	30(d)	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	30(e)	2,000,000	2,000,000
Certificates of interbank deposit	30(f)	115,720,240	68,089,181
Total		140,920,240	87,289,181

*Notes:*

- (a) Tier two capital fixed rate debts of RMB2.2 billion with a term of ten years were issued on 28 May 2014. The coupon rate is 6.18%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (b) Tier two capital fixed rate debts of RMB10.0 billion with a term of ten years were issued on 4 December 2015. The coupon rate is 4.57%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (c) Tier two capital fixed rate debts of RMB6.0 billion with a term of ten years were issued on 18 December 2017. The coupon rate is 4.90%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (d) Financial fixed rate bonds of RMB5.0 billion with a term of three years were issued on 26 August 2016. The coupon rate is 3.00% per annum.
- (e) Financial fixed rate bonds of RMB2.0 billion with a term of five years were issued on 26 August 2016. The coupon rate is 3.10% per annum.
- (f) As at 31 December 2017, the interbank negotiable certificates of deposit were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB114,347 million (31 December 2016: RMB67,110 million).



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 31 OTHER LIABILITIES

	Note	31 December 2017	31 December 2016
Interest payable	31(a)	13,659,993	11,653,951
Accrued staff cost	31(b)	404,265	427,419
Payment and collection clearance accounts		350,121	749,009
Dividend payable		134,615	186,572
Deferred income		61,114	161,173
Taxes payable	31(c)	59,690	490,903
Dormant accounts		40,909	37,987
Others		<u>349,764</u>	<u>423,642</u>
Total		<u><u>15,060,471</u></u>	<u><u>14,130,656</u></u>

#### (a) Interest payable

	31 December 2017	31 December 2016
Interest payable arising from:		
– Deposits from customers	10,964,801	8,748,356
– Deposits from banks and other financial institutions	1,627,531	1,731,179
– Borrowings from central bank	621,019	929,211
– Debt securities issued	222,257	204,866
– Placements from banks and other financial institutions	174,086	31,491
– Financial assets sold under repurchase agreements	33,617	8,191
– Others	<u>16,682</u>	<u>657</u>
Total	<u><u>13,659,993</u></u>	<u><u>11,653,951</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 31 OTHER LIABILITIES (Continued)

#### (b) Accrued staff cost

	Note	31 December 2017	31 December 2016
Salary, bonuses and allowances payable		193,394	202,613
Pension and annuity payable	31(b)(i)	71,806	73,612
Supplementary retirement benefits payable	31(b)(ii)	97,579	110,946
Housing allowances payable		29,992	29,857
Other social insurance payable		2,212	1,965
Others		9,282	8,426
Total		404,265	427,419

#### (i) Pension and annuity

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor and social security authorities. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stimulated by the relevant government authorities.

The Group also provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to the total salaries and bonuses of employees, which are charged to profit or loss when the contributions are made.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 31 OTHER LIABILITIES (Continued)

#### (b) Accrued staff cost (Continued)

##### (ii) *Supplementary retirement benefits*

###### *Early retirement plan*

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The Group accounts for the respective obligations in accordance with the accounting policies in Note 2(o).

###### *Supplementary retirement plan*

The Group provides a supplementary retirement plan to its eligible employees, which is mainly heating compensation. The Group accounted for the respective obligations in accordance with the accounting policies in Note 2(o).

(1) The balances of supplementary retirement benefits of the Group are as follows:

	31 December 2017	31 December 2016
Present value of early retirement plan	50,841	67,398
Present value of supplementary retirement plan	<u>46,738</u>	<u>43,548</u>
Total	<u><u>97,579</u></u>	<u><u>110,946</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 31 OTHER LIABILITIES (Continued)

#### (b) Accrued staff cost (Continued)

##### (ii) Supplementary retirement benefits (Continued)

###### Supplementary retirement plan (Continued)

(2) The movements of supplementary retirement benefits of the Group are as follows:

	2017	2016
As at 1 January	110,946	126,107
Benefits paid during the year	(15,150)	(18,885)
Defined benefit cost recognised		
in profit or loss	973	3,268
Defined benefit cost recognised in other comprehensive income	810	456
As at 31 December	97,579	110,946

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 31 OTHER LIABILITIES (Continued)

#### (b) Accrued staff cost (Continued)

##### (ii) Supplementary retirement benefits (Continued)

###### Supplementary retirement plan (Continued)

(3) Principal actuarial assumptions of the Group are as follows:

	31 December 2017	31 December 2016
<b>Early retirement plan</b>		
Discount rate	3.75%	2.75%
Mortality	Note 31(b)(ii) (3)(i)	Note 31(b)(ii) (3)(i)
Retired age		
– Male	60	60
– Female	55	55
Annual increase rate of internal salary	4.00%	4.00%
<b>Supplementary retirement plan</b>		
Discount rate	4.25%	3.75%
Mortality	Note 31(b)(ii) (3)(i)	Note 31(b)(ii) (3)(i)
Turnover rate	3.00%	3.00%
Retired age		
– Male	60	60
– Female	55	55

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 31 OTHER LIABILITIES (Continued)

#### (b) Accrued staff cost (Continued)

##### (ii) Supplementary retirement benefits (Continued)

###### Supplementary retirement plan (Continued)

(3) Principal actuarial assumptions of the Group are as follows: (Continued)

###### Notes:

(i) As at 31 December 2017, Mortality assumptions are based on China Life Insurance Annuity Table (2010–2013) in China Life Insurance Mortality Table compiled by People's Life Insurance Company of China (PLICC), which are published historical statistics in China.

As at 31 December 2016, Mortality assumptions are based on China Life Insurance Annuity Table (2000–2003) in China Life Insurance Mortality Table compiled by People's Life Insurance Company of China (PLICC), which are published historical statistics in China.

#### (c) Taxes payable

	31 December 2017	31 December 2016
Value-added tax and surcharges payable	–	457,384
Others	59,690	33,519
Total	59,690	490,903

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 32 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:

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2017		5,796,680	11,855,505	4,666,968	9,263,993	(92,044)	(5,468)	14,275,041	45,760,675
Profit for the year		-	-	-	-	-	-	7,576,599	7,576,599
Other comprehensive income		-	-	-	-	(243,331)	(608)	-	(243,939)
Total comprehensive income		-	-	-	-	(243,331)	(608)	7,576,599	7,332,660
Appropriation of profit:									
- Appropriation to surplus reserve	35	-	-	685,534	-	-	-	(685,534)	-
- Appropriation to general reserve	35	-	-	-	1,763,354	-	-	(1,763,354)	-
- Cash dividends	35	-	-	-	-	-	-	(1,449,170)	(1,449,170)
Subtotal		-	-	685,534	1,763,354	-	-	(3,898,058)	(1,449,170)
Balance at 31 December 2017		5,796,680	11,855,505	5,352,502	11,027,347	(335,375)	(6,076)	17,953,582	51,644,165

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 32 MOVEMENT IN COMPONENTS OF EQUITY (Continued)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2016		5,796,680	11,855,505	3,893,846	6,173,630	623,163	(5,126)	12,906,248	41,243,946
Profit for the year		-	-	-	-	-	-	6,855,348	6,855,348
Other comprehensive income		-	-	-	-	(715,207)	(342)	-	(715,549)
Total comprehensive income		-	-	-	-	(715,207)	(342)	6,855,348	6,139,799
Appropriation of profit:									
- Appropriation to surplus reserve	35	-	-	773,122	-	-	-	(773,122)	-
- Appropriation to general reserve	35	-	-	-	3,090,363	-	-	(3,090,363)	-
- Cash dividends	35	-	-	-	-	-	-	(1,623,070)	(1,623,070)
Subtotal		-	-	773,122	3,090,363	-	-	(5,486,555)	(1,623,070)
Balance at 31 December 2016		5,796,680	11,855,505	4,666,968	9,263,993	(92,044)	(5,468)	14,275,041	45,760,675

### 33 SHARE CAPITAL

#### Issued share capital

	31 December 2017	31 December 2016
Number of shares, issued and fully paid at par value ( <i>in thousands</i> )	5,796,680	5,796,680



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 34 RESERVES

#### (a) Capital reserve

Capital reserve mainly included share premium arising from the issuance of new shares at prices in excess of par value.

#### (b) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (“MOF”) after making good prior year’s accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank also appropriates discretionary surplus reserve fund in accordance with the resolution of the shareholders.

#### (c) General reserve

From 1 July 2012, pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)” issued by the MOF on 20 March 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by 31 December 2017.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 34 RESERVES (continued)

#### (d) Fair value reserve

	2017	2016
As at 1 January	(92,044)	623,163
Change in fair value recognised in other comprehensive income	(406,098)	(62,512)
Less: deferred income tax	101,525	15,628
Transfer to profit or loss upon disposal	81,656	(891,097)
Less: deferred income tax	(20,414)	222,774
Subtotal	(243,331)	(715,207)
As at 31 December	(335,375)	(92,044)

#### (e) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

#### (f) Retained earnings

As at 31 December 2017, the retained earnings included the statutory surplus reserve of RMB4.69 million (31 December 2016: RMB3.78 million), appropriated by the subsidiaries and attributable to the Bank, of which RMB0.91 million (2016: RMB0.91 million) was appropriated by the subsidiaries for the year then ended. The statutory surplus reserve in retained earnings which is contributed by subsidiaries cannot be further distributed.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 35 PROFIT DISTRIBUTION

(i) In accordance with the resolution of the Bank's Board of directors meeting on 23 March 2018, the proposed profit distribution plan for the year ended 31 December 2017 is as follows:

- Appropriate RMB757.66 million to the discretionary surplus reserve fund;
- Appropriate RMB1,537.58 million to the general reserve;
- Declare cash dividends of RMB1.80 per ten shares before tax and in aggregation of RMB1,043.40 million to all shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

(ii) In accordance with the resolution of the Bank's 2016 Annual General Meeting held on 16 May 2017, the shareholders approved the following profit distribution plan for the year ended 31 December 2016 is as follows:

- Appropriated RMB152.51 million to the statutory surplus reserve fund, the statutory surplus reserve fund balance reached 50% of its registered capital on 31 December 2016;
- Appropriated RMB685.53 million to the discretionary surplus reserve fund;
- Appropriated RMB1,763.35 million to the general reserve;
- Declared cash dividends of RMB2.50 per ten shares before tax and in aggregation of RMB1,449.17 million to all shareholders.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	31 December 2017	31 December 2016
Cash on hand	809,636	642,182
Deposits with central bank other than restricted deposits	26,758,129	20,835,652
Deposits with banks and other financial institutions with original maturity of three months or less	5,996,550	35,608,390
Placements with banks and other financial institutions with original maturity of three months or less	27,655,780	19,430,000
Financial assets held under resale agreements with original maturity of three months or less	<u>20,339,752</u>	<u>16,039,394</u>
Total	<u>81,559,847</u>	<u>92,555,618</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Reconciliation of liabilities arising from financing activities:

	Debt securities issued (Note 30)	Interest payable arising from debt securities issued (Note 31(a))	Total
<b>As at 1 January 2017</b>	87,289,181	204,866	87,494,047
<b>Changes from financing cash flows:</b>			
Net proceeds from new debt securities issued	486,032,509	–	486,032,509
Repayment of debt securities issued	(432,405,450)	–	(432,405,450)
Interest paid on debt securities issued	–	(5,974,008)	(5,974,008)
<b>Total changes from financing cash flows</b>	53,627,059	(5,974,008)	47,653,051
<b>Other changes:</b>			
Interest expenses (Note 3)	–	5,991,399	5,991,399
Issuing cost of debt securities	4,000	–	4,000
<b>Total other changes</b>	4,000	5,991,399	5,995,399
As at 31 December 2017	140,920,240	222,257	141,142,497

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

#### (a) Relationship of related parties

##### (i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership, or assigning a director in the Bank.

*Share percentage in the Bank:*

	31 December 2017	31 December 2016
Evergrande Group (Nanchang) Co., Ltd.	17.28%	17.28%
Shenyang Hengxin State-owned Asset Management Group Co., Ltd.	8.28%	8.28%
Liaoning Huibao International Investment Group Co., Ltd.	6.90%	6.90%
Xinhu Zhongbao Co., Ltd.	5.18%	5.18%
Founder Securities Co., Ltd.	5.18%	5.18%
Shenyang Zhongyou Tipo (Group) Machinery & Equipment manufacturing Co., Ltd.	3.28%	3.28%
Great Captain Limited	–	9.96%

##### (ii) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 21.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (a) Relationship of related parties (Continued)

##### (iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 37(a)(i) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Group (Note 31(b)).

#### (b) Related party transactions and balances

Related party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

##### (i) Transactions between the Bank and major shareholders

	31 December 2017	31 December 2016
Balances at the end of the year:		
Deposits from customers	44,962	68,147
Guarantees received	1,580,500	1,899,900
	2017	2016
Transactions during the year:		
Interest expense	276	740

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (b) Related party transactions and balances (Continued)

##### (ii) Transactions between the Bank and subsidiaries

	31 December 2017	31 December 2016
Balances at the end of the year:		
Deposits from banks and other financial institutions	113,225	284,426
	2017	2016
Transactions during the year:		
Interest income	883	35
Interest expense	9,665	7,162

##### (iii) Transactions between the Bank and other related parties

	31 December 2017	31 December 2016
Balances at the end of the year:		
Loans and advances to customers	1,655,976	1,759,221
Loans and receivables	4,799,493	3,768,520
Deposits from customers	31,799,316	999,992
Bank acceptances	60	20,000
Guarantees received	5,847,178	3,768,950
	2017	2016
Transactions during the year:		
Interest income	353,469	78,457
Interest expense	12,071	11,047
Fee and commission income	48	141



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (c) Key management personnel

##### (i) Key management personnel remuneration

	2017	2016
Salaries and other emoluments	16,469	16,432
Discretionary bonuses	23,903	25,474
Contributions to pension schemes	1,650	1,733
Total	42,022	43,639

##### (ii) Loans and advances to directors, supervisors and officers

At 31 December 2017 and 2016, there is no loans and advances to directors, supervisors and officers of the Group pursuant to section 383(1) of Hong Kong Companies Ordinance.

##### (iii) Transactions between the Bank and key management personnel

	31 December 2017	31 December 2016
Balances at the end of the year:		
Deposits from customers	14,863	17,141
Transactions during the year:		
Interest expense	449	716

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 38 SEGMENT REPORTING

#### (a) Business Segment

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, and remittance and settlement 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, remittance and settlement services, and collection and payment agency services.

##### ***Treasury business***

This segment covers the Group's treasury business including 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 issuance of debts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 38 SEGMENT REPORTING (Continued)

#### (a) Business Segment (Continued)

##### *Others*

Others represent equity investment and related income and any other business which cannot form a single reportable segment.

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, with the exception of deferred income tax assets. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 38 SEGMENT REPORTING (Continued)

#### (a) Business Segment (Continued)

	2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	3,074,065	(3,943,219)	12,944,771	–	12,075,617
Internal net interest income/(expense)	3,263,264	4,680,749	(7,944,013)	–	–
Net interest income	6,337,329	737,530	5,000,758	–	12,075,617
Net fee and commission income	1,092,152	509,817	10,789	–	1,612,758
Net trading losses	–	–	(1,121,332)	–	(1,121,332)
Net gains arising from investments	–	–	112,484	38,601	151,085
Net foreign exchange gains	–	–	475,938	–	475,938
Other operating income	23,767	–	3,799	28,051	55,617
Operating income	7,453,248	1,247,347	4,482,436	66,652	13,249,683
Operating expenses	(2,494,393)	(758,728)	(360,783)	(3,538)	(3,617,442)
Impairment losses on assets	(1,242,791)	(26,493)	(134,000)	–	(1,403,284)
Profit before tax	3,716,064	462,126	3,987,653	63,114	8,228,957
Other segment information					
– Depreciation and amortisation	272,077	84,447	14,754	–	371,278
– Capital expenditure	682,966	211,981	37,036	–	931,983

	31 December 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	306,888,617	31,484,360	689,886,627	384,025	1,028,643,629
Deferred tax assets					1,973,802
Total assets					1,030,617,431
Segment liabilities/Total liabilities	347,859,946	149,457,550	480,907,987	136,292	978,361,775
Credit commitments	170,781,889	2,246,054	–	–	173,027,943

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*(Expressed in thousands of RMB, unless otherwise stated)*

### 38 SEGMENT REPORTING (Continued)

#### (a) Business Segment (Continued)

	2016				Total
	Corporate banking	Retail banking	Treasury business	Others	
Operating income					
External net interest income/(expense)	5,276,840	(3,562,095)	11,502,921	–	13,217,666
Internal net interest income/(expense)	4,641,628	4,208,432	(8,850,060)	–	–
Net interest income	9,918,468	646,337	2,652,861	–	13,217,666
Net fee and commission income	1,493,971	408,906	11,030	–	1,913,907
Net trading gains	–	–	191,051	–	191,051
Net gains arising from investments	–	–	891,097	1,120	892,217
Net foreign exchange losses	–	–	(151,337)	–	(151,337)
Other operating income	31,991	1,648	–	16,733	50,372
Operating income	11,444,430	1,056,891	3,594,702	17,853	16,113,876
Operating expenses	(2,556,271)	(681,626)	(488,418)	(4,283)	(3,730,598)
Impairment losses on assets	(2,965,388)	(64,023)	(646,000)	–	(3,675,411)
Profit before tax	<u>5,922,771</u>	<u>311,242</u>	<u>2,460,284</u>	<u>13,570</u>	<u>8,707,867</u>
Other segment information					
– Depreciation and amortisation	<u>245,159</u>	<u>70,862</u>	<u>11,999</u>	–	<u>328,020</u>
– Capital expenditure	<u>668,133</u>	<u>193,121</u>	<u>32,700</u>	–	<u>893,954</u>
	31 December 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	271,909,537	15,508,795	616,269,165	384,025	904,071,522
Deferred tax assets					1,411,125
Total assets					<u>905,482,647</u>
Segment liabilities/Total liabilities	<u>294,518,492</u>	<u>132,016,734</u>	<u>432,257,727</u>	<u>315,068</u>	<u>859,108,021</u>
Credit commitments	<u>152,442,135</u>	<u>2,146,488</u>	–	–	<u>154,588,623</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 38 SEGMENT REPORTING (Continued)

#### (b) Geographical information

The Group operates principally in mainland China with eighteen branches located in five provinces and municipalities directly under the central government, and seven subsidiaries located in Shenyang of Liaoning Province, Baoshan of Shanghai and Ningbo of Zhejiang Province respectively.

In presenting of geographical information, non-current assets are allocated based on the geographical location of the underlying assets. Operating income is allocated based on the location of the Group's entities which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Northeast China” refers to headquarter and the following areas serviced by subsidiaries and branches of the Bank: Shenyang, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang, Tieling, Shenyang Xinmin, Shenyang Shenbei, Shenyang Faku, Shenyang Liaozhong and Shengjing Consumer;
- “North China” refers to the following areas serviced by branches of the Bank: Beijing and Tianjin;
- “Others” refers to the following areas serviced by subsidiaries and branches of the Bank: Shanghai, Shanghai Baoshan, and Ningbo Jiangbei.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 38 SEGMENT REPORTING (Continued)

#### (b) Geographical information (Continued)

	Operating income	
	2017	2016
Northeast China	11,526,922	14,263,677
North China	1,294,866	1,247,406
Others	427,895	602,793
Total	13,249,683	16,113,876

	Non-current assets (Note i)	
	31 December 2017	31 December 2016
Northeast China	5,169,995	4,594,028
North China	327,394	353,087
Others	34,121	24,141
Total	5,531,510	4,971,256

Note:

- (i) Non-current assets include property and equipment, intangible assets, long-term deferred expense and land use rights.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### **39 RISK MANAGEMENT**

The Group is primarily exposed to credit, interest rate, currency and liquidity risks from its use of financial instruments in the normal course of the Group's operations. This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and minimise potential adverse effects.

The Board of Directors (the "Board") is the highest decision-making authority within the Bank in terms of risk management and oversees the Group's risk management functions through Risk Control and Consumer Rights Protection Committee. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Control and Consumer Rights Protection Committee of the Board. Based on the risk management strategies determined by the Board, senior management is responsible for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (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 debt investments portfolios and guarantees granted.

##### ***Credit business***

The Board is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The Board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies, ensures that all kinds of credit risk in various businesses are properly identified, assessed, calculated and monitored. The Credit Approval Department is responsible for credit risk management. Front-office departments such as the Corporate Banking Department, the Retail Banking Department, the Investment Banking Department and the Financial Institutions Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### ***Credit business (Continued)***

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral 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.

##### ***Treasury Business***

The Group's treasury business are exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

##### ***(i) Maximum credit risk exposure***

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of the reporting period is disclosed in Note 41(a).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### *Treasury Business (Continued)*

##### (ii) *Loans and advances to customers*

	31 December 2017	31 December 2016
Gross balance of loans and advances to customers		
– Neither overdue nor impaired	274,114,939	229,137,993
– Overdue but not impaired	1,242,649	2,172,336
– Impaired	<u>4,155,830</u>	<u>4,106,321</u>
	<u>279,513,418</u>	<u>235,416,650</u>
Less: allowance for impairment loss		
– Neither overdue nor impaired	(5,431,721)	(4,249,634)
– Overdue but not impaired	(74,665)	(130,266)
– Impaired	<u>(2,224,245)</u>	<u>(2,156,018)</u>
	<u>(7,730,631)</u>	<u>(6,535,918)</u>
Net balance		
– Neither overdue nor impaired	268,683,218	224,888,359
– Overdue but not impaired	1,167,984	2,042,070
– Impaired	<u>1,931,585</u>	<u>1,950,303</u>
	<u><u>271,782,787</u></u>	<u><u>228,880,732</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### *Treasury Business (Continued)*

##### (ii) *Loans and advances to customers (Continued)*

- (1) Neither overdue nor impaired

Credit risk of loans and advances to customers neither overdue nor impaired was analysed as follows:

	31 December 2017	31 December 2016
Corporate loans and advances	259,264,919	221,127,939
Personal loans and advances	<u>14,850,020</u>	<u>8,010,054</u>
Total gross balance	<u><u>274,114,939</u></u>	<u><u>229,137,993</u></u>

- (2) Overdue but not impaired

The following tables present the overdue analysis of each type of loans and advances to customers of the Group which were overdue but not impaired as at the end of the reporting period.

	31 December 2017				Total
	Less than 1 month (inclusive)	1 month to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	643,356	554,146	–	–	1,197,502
Personal loans and advances	<u>24,357</u>	<u>13,391</u>	<u>7,399</u>	–	<u>45,147</u>
Total gross balance	<u><u>667,713</u></u>	<u><u>567,537</u></u>	<u><u>7,399</u></u>	<u><u>–</u></u>	<u><u>1,242,649</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### *Treasury Business (Continued)*

##### (ii) *Loans and advances to customers (Continued)*

##### (2) Overdue but not impaired (Continued)

	31 December 2016				Total
	Less than 1 month (inclusive)	1 month to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	1,096,165	1,033,890	–	–	2,130,055
Personal loans and advances	18,266	9,156	14,859	–	42,281
Total gross balance	<u>1,114,431</u>	<u>1,043,046</u>	<u>14,859</u>	<u>–</u>	<u>2,172,336</u>

The fair value of related collateral held by the Group as security is as follows:

	31 December 2017	31 December 2016
Fair value of collateral held against loans and advances overdue but not impaired	<u>4,304,506</u>	<u>3,805,085</u>

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### *Treasury Business (Continued)*

##### (ii) *Loans and advances to customers (Continued)*

##### (3) Impaired loans

	31 December 2017	31 December 2016
Corporate loans and advances	4,042,798	3,998,242
Personal loans and advances	<u>113,032</u>	<u>108,079</u>
Total	<u><u>4,155,830</u></u>	<u><u>4,106,321</u></u>
% of total loans and advances	<u>1.49%</u>	<u>1.74%</u>
Allowance for impairment losses		
– Corporate loans and advances	2,111,924	2,053,429
– Personal loans and advances	<u>112,321</u>	<u>102,589</u>
Total	<u><u>2,224,245</u></u>	<u><u>2,156,018</u></u>
Fair value of collateral held against impaired loans	<u>1,931,425</u>	<u>1,946,405</u>

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### *Treasury Business (Continued)*

##### *(ii) Loans and advances to customers (Continued)*

##### (4) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or assumption of the loans by a borrower with better repayment ability. The Group has no rescheduled loans as at 31 December 2017 (31 December 2016: nil) which were all overdue more than 90 days.

##### *(iii) Debt securities investments*

The Group adopts an internal credit rating approach in managing the credit risk of amounts due from banks and other financial institutions. The distribution according to the credit rating of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2017	31 December 2016
Carrying amount		
Neither overdue nor impaired		
– grade A to AAA	65,966,055	91,191,322
– grade B to BBB	24,096,843	36,142,125
– grade C to CCC	14,342	7,557
– unrated	4,505	626,290
Total	<u>90,081,745</u>	<u>127,967,294</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### *Treasury Business (Continued)*

##### *(iii) Debt securities investments (Continued)*

The credit risk of debt securities investments mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities investments by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers:

	31 December 2017	31 December 2016
Neither overdue nor impaired		
– Government	117,476,010	100,247,080
– Policy banks	109,546,697	79,540,838
– Banks and other financial institutions	166,769,910	186,967,113
– Corporate	123,086,234	97,505,642
Subtotal	<u>516,878,851</u>	<u>464,260,673</u>
Impairment loss	<u>(1,329,169)</u>	<u>(1,279,000)</u>
Net balance	<u>515,549,682</u>	<u>462,981,673</u>
Overdue but not impaired		
– Corporate	300,000	–
Impairment loss	<u>(11,538)</u>	<u>–</u>
Net balance	<u>288,462</u>	<u>–</u>
Impaired		
– Corporate	144,586	–
Impairment loss	<u>(72,293)</u>	<u>–</u>
Net balance	<u>72,293</u>	<u>–</u>
Total	<u><u>515,910,437</u></u>	<u><u>462,981,673</u></u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (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, exchange rates, commodity prices, stock prices and other prices. The market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within the acceptable limit and maximise the risk-adjusted income.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Control Committee to supervise the market risk management conducted by the senior management. The Asset and Liability Management Department of the Bank is responsible for identifying, measuring, monitoring and reporting the market risk of the various business lines, providing various data on market risks and other technical support. The Risk Management Department is responsible for overall market risk management.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Interest repricing 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 categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

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.

##### (i) *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.

##### (1) *Repricing risk*

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Financial Institutions Department is responsible for identifying, measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

The following tables indicate the assets and liabilities analysis as at the end 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 (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Assets</b>						
Cash and deposits with central bank	84,201,957	1,441,459	82,760,498	-	-	-
Deposits with banks and other financial institutions	35,414,260	-	11,945,550	23,468,710	-	-
Placements with banks and other financial institutions	34,327,733	-	29,746,724	4,581,009	-	-
Financial assets held under resale agreements	20,339,752	-	20,339,752	-	-	-
Loans and advances to customers (Note (i))	271,782,787	-	227,702,963	32,366,503	10,276,698	1,436,623
Financial investments (Note (ii))	566,365,837	384,025	91,900,482	220,076,674	166,346,038	87,658,618
Others	18,185,105	17,910,795	-	274,310	-	-
<b>Total assets</b>	<b>1,030,617,431</b>	<b>19,736,279</b>	<b>464,395,969</b>	<b>280,767,206</b>	<b>176,622,736</b>	<b>89,095,241</b>
<b>Liabilities</b>						
Borrowings from central bank	(48,160,000)	-	(48,160,000)	-	-	-
Deposits from banks and other financial institutions	(153,651,596)	-	(119,853,312)	(33,685,284)	(113,000)	-
Placements from banks and other financial institutions	(51,323,948)	-	(45,516,887)	(5,807,061)	-	-
Financial assets sold under repurchase agreements	(75,623,265)	-	(75,623,265)	-	-	-
Deposits from customers	(473,580,808)	-	(239,929,811)	(70,486,761)	(163,164,208)	(28)
Debt securities issued	(140,920,240)	-	(101,323,017)	(14,397,223)	(7,000,000)	(18,200,000)
Others	(35,101,918)	(16,548,031)	(1,025,072)	(17,528,815)	-	-
<b>Total liabilities</b>	<b>(978,361,775)</b>	<b>(16,548,031)</b>	<b>(631,431,364)</b>	<b>(141,905,144)</b>	<b>(170,277,208)</b>	<b>(18,200,028)</b>
<b>Asset-liability gap</b>	<b>52,255,656</b>	<b>3,188,248</b>	<b>(167,035,395)</b>	<b>138,862,062</b>	<b>6,345,528</b>	<b>70,895,213</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

	31 December 2016					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Assets</b>						
Cash and deposits with central bank	71,375,747	642,182	70,733,565	-	-	-
Deposits with banks and other financial institutions	90,789,790	-	51,096,390	39,693,400	-	-
Placements with banks and other financial institutions	21,138,110	-	19,430,000	1,708,110	-	-
Financial assets held under resale agreements	16,039,394	-	16,039,394	-	-	-
Loans and advances to customers (Note (i))	228,880,732	-	193,012,576	23,217,934	9,971,581	2,678,641
Financial investments (Note (ii))	463,365,698	384,025	88,592,720	204,850,477	133,703,044	35,835,432
Others	13,893,176	13,893,176	-	-	-	-
<b>Total assets</b>	<b>905,482,647</b>	<b>14,919,383</b>	<b>438,904,645</b>	<b>269,469,921</b>	<b>143,674,625</b>	<b>38,514,073</b>
<b>Liabilities</b>						
Borrowings from central bank	(118,800,000)	-	(59,000,000)	(59,800,000)	-	-
Deposits from banks and other financial institutions	(143,378,530)	-	(67,978,758)	(69,886,772)	(5,513,000)	-
Placements from banks and other financial institutions	(38,940,901)	-	(36,529,256)	(2,411,645)	-	-
Financial assets sold under repurchase agreements	(40,285,591)	-	(40,028,567)	(257,024)	-	-
Deposits from customers	(415,246,159)	-	(155,065,012)	(100,898,876)	(154,082,246)	(5,200,025)
Debt securities issued	(87,289,181)	-	(38,569,472)	(29,519,709)	(7,000,000)	(12,200,000)
Others	(15,167,659)	(15,167,659)	-	-	-	-
<b>Total liabilities</b>	<b>(859,108,021)</b>	<b>(15,167,659)</b>	<b>(397,171,065)</b>	<b>(262,774,026)</b>	<b>(166,595,246)</b>	<b>(17,400,025)</b>
<b>Asset-liability gap</b>	<b>46,374,626</b>	<b>(248,276)</b>	<b>41,733,580</b>	<b>6,695,895</b>	<b>(22,920,621)</b>	<b>21,114,048</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months (inclusive)" as at 31 December 2017 included overdue amounts (net of provision for impairment losses) of RMB1,169 million (31 December 2016: RMB2,134 million).
- (ii) Financial investments included available-for-sale financial assets, held-to-maturity investments and loans and receivables.

##### (2) Interest rate sensitivity analysis

	31 December 2017 Increase/ (decrease)	31 December 2016 Increase/ (decrease)
Change in profit after taxation		
Up 100 bps parallel shift in yield curves	(940,101)	178,702
Down 100 bps parallel shift in yield curves	940,101	(178,702)
	31 December 2017 Increase/ (decrease)	31 December 2016 Increase/ (decrease)
Change in equity		
Up 100 bps parallel shift in yield curves	(1,693,749)	(127,828)
Down 100 bps parallel shift in yield curves	1,729,086	137,426

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (2) Interest rate sensitivity analysis (Continued)

The sensitivity analysis above is based on simplified scenarios. This analysis measures only the impact of changes in interest rates within one year, showing how annualised 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 apply to all financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the mid of the respective periods;
- 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 profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (continued)

#### (b) Market risk (Continued)

##### (ii) Currency risk

The Group's currency risk mainly arises from foreign currency loans and deposits from customers. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the reporting period are as follows:

	31 December 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with central bank	83,446,636	730,893	24,428	84,201,957
Deposits with banks and other financial institutions	31,947,910	2,968,109	498,241	35,414,260
Placements with banks and other financial institutions	21,970,000	12,356,172	1,561	34,327,733
Financial assets held under resale agreements	20,339,752	–	–	20,339,752
Loans and advances to customers	269,091,209	1,945,478	746,100	271,782,787
Financial investments (Note (i))	564,535,783	1,830,054	–	566,365,837
Others	18,007,259	49,566	128,280	18,185,105
<b>Total assets</b>	<b>1,009,338,549</b>	<b>19,880,272</b>	<b>1,398,610</b>	<b>1,030,617,431</b>
<b>Liabilities</b>				
Borrowings from central bank	(48,160,000)	–	–	(48,160,000)
Deposits from banks and other financial institutions	(148,162,822)	(5,488,728)	(46)	(153,651,596)
Placements from banks and other financial institutions	(12,060,000)	(38,724,786)	(539,162)	(51,323,948)
Financial assets sold under repurchase agreements	(75,623,265)	–	–	(75,623,265)
Deposits from customers	(470,911,217)	(1,904,049)	(765,542)	(473,580,808)
Debt securities issued	(140,920,240)	–	–	(140,920,240)
Others	(34,765,456)	(270,433)	(66,029)	(35,101,918)
<b>Total liabilities</b>	<b>(930,603,000)</b>	<b>(46,387,996)</b>	<b>(1,370,779)</b>	<b>(978,361,775)</b>
<b>Net position</b>	<b>78,735,549</b>	<b>(26,507,724)</b>	<b>27,831</b>	<b>52,255,656</b>
Off-balance sheet credit commitments	168,883,055	3,074,878	1,070,010	173,027,943

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (ii) Currency risk (Continued)

	31 December 2016			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with central bank	71,295,617	59,993	20,137	71,375,747
Deposits with banks and other financial institutions	77,204,773	13,503,704	81,313	90,789,790
Placements with banks and other financial institutions	20,930,000	208,110	-	21,138,110
Financial assets held under resale agreements	16,039,394	-	-	16,039,394
Loans and advances to customers	225,292,115	2,681,455	907,162	228,880,732
Financial investments (Note (i))	461,422,846	1,942,852	-	463,365,698
Others	13,863,557	19,922	9,697	13,893,176
Total assets	886,048,302	18,416,036	1,018,309	905,482,647
<b>Liabilities</b>				
Borrowings from central bank	(118,800,000)	-	-	(118,800,000)
Deposits from banks and other financial institutions	(139,715,062)	(2,988,914)	(674,554)	(143,378,530)
Placements from banks and other financial institutions	(14,204,500)	(24,494,547)	(241,854)	(38,940,901)
Financial assets sold under repurchase agreements	(40,285,591)	-	-	(40,285,591)
Deposits from customers	(414,146,557)	(906,884)	(192,718)	(415,246,159)
Debt securities issued	(87,289,181)	-	-	(87,289,181)
Others	(15,037,737)	(111,233)	(18,689)	(15,167,659)
Total liabilities	(829,478,628)	(28,501,578)	(1,127,815)	(859,108,021)
Net position	56,569,674	(10,085,542)	(109,506)	46,374,626
Off-balance sheet credit commitments	150,579,755	2,796,033	1,212,835	154,588,623



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (ii) Currency risk (Continued)

Note:

- (i) Financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.

	31 December 2017 Increase/ (decrease)	31 December 2016 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps parallel shift in yield curves	(30,394)	(11,022)
Down 100 bps parallel shift in yield curves	30,394	11,022

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;
- 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 other foreign currencies change in the same direction simultaneously, and thus other foreign currencies are converted into US dollars through sensitivity analysis;

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (ii) Currency risk (Continued)

- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's profit or loss and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

#### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong.

The Group centrally manages the Bank's liquidity risk at the head office through a liquidity risk governance structure consisting of Board of Directors, Board of Supervisors, senior management, as well as the liquidity risk management structure consisting of the Asset and Liability Management Committee, Asset and Liability Management Department and Risk Management Department at the head office:

- The Asset and Liability Management Committee is the Bank's liquidity risk management body that is responsible for developing, and regularly assessing and monitoring the implementation of liquidity risk management policies and measures;

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

- As the leading department in liquidity risk management, the Asset and Liability Management Department is responsible for developing and implementing the relevant system; identifying, measuring and monitoring the liquidity risk and the implementation of limitations; performing stress testing, risk analysis and reporting; as well as organizing the daily management of the liquidity risk by business departments ;
- The Risk Management Department includes liquidity risk in a comprehensive risk management system, initiates ideas on limitation management of the liquidity risk, and arranges for performance evaluation.

The Group manages liquidity risk by managing the term structure of assets and liabilities, as well as dynamically monitoring liquidity indicators such as loan-to-deposit ratio, liquidity ratio, liquidity coverage ratio, excess reserves ratio, inter-bank loan to saving ratio, credit quality ratio, liquidity gap ratio, etc. The Group forecasts liquidity weekly, analyses liquidity monthly, and performs stress testing of liquidity risk quarterly.

The Group also formulates liquidity risk emergency plan to ensure sufficient liquidity under various market conditions.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a major source of funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (i) Maturity analysis

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 the reporting period:

	31 December 2017							Total
	Indefinite (Note (i))	Repayable on demand (Note (ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Assets</b>								
Cash and deposits with central bank	56,002,369	27,567,765	-	-	631,823	-	-	84,201,957
Deposits with banks and other financial institutions	-	3,381,550	4,876,000	3,688,000	23,468,710	-	-	35,414,260
Placements with banks and other financial institutions	-	-	23,276,758	6,469,966	4,581,009	-	-	34,327,733
Financial assets held under resale agreements	-	-	20,339,752	-	-	-	-	20,339,752
Loans and advances to customers	2,471,526	628,043	14,392,594	22,390,842	123,186,097	90,363,761	18,349,924	271,782,787
Financial investments (Note (i))	456,318	288,462	21,692,926	66,883,333	166,501,050	221,666,104	88,877,644	566,365,837
Others	7,840,532	323,833	1,536,251	1,904,696	6,373,836	205,957	-	18,185,105
<b>Total assets</b>	<b>66,770,745</b>	<b>32,189,653</b>	<b>86,114,281</b>	<b>101,336,837</b>	<b>324,742,525</b>	<b>312,235,822</b>	<b>107,227,568</b>	<b>1,030,617,431</b>
<b>Liabilities</b>								
Borrowings from central bank	-	-	(37,340,000)	(10,820,000)	-	-	-	(48,160,000)
Deposits from banks and other financial institutions	-	(5,835,468)	(63,953,890)	(50,063,954)	(33,685,284)	(113,000)	-	(153,651,596)
Placements from banks and other financial institutions	-	-	(36,665,882)	(8,851,005)	(5,807,061)	-	-	(51,323,948)
Financial assets sold under repurchase agreements	-	-	(75,188,077)	(435,188)	-	-	-	(75,623,265)
Deposits from customers	-	(176,001,352)	(22,770,177)	(41,158,282)	(70,486,761)	(163,164,208)	(28)	(473,580,808)
Debt securities issued	-	-	(61,174,101)	(37,148,916)	(14,397,223)	(10,000,000)	(18,200,000)	(140,920,240)
Others	-	(4,740,002)	(2,639,107)	(3,662,393)	(20,158,724)	(3,804,112)	(97,580)	(35,101,918)
<b>Total liabilities</b>	<b>-</b>	<b>(186,576,822)</b>	<b>(299,731,234)</b>	<b>(152,139,738)</b>	<b>(144,535,053)</b>	<b>(177,081,320)</b>	<b>(18,297,608)</b>	<b>(978,361,775)</b>
<b>Long(short) position</b>	<b>66,770,745</b>	<b>(154,387,169)</b>	<b>(213,616,953)</b>	<b>(50,802,901)</b>	<b>180,207,472</b>	<b>135,154,502</b>	<b>88,929,960</b>	<b>52,255,656</b>
Notional amount of derivatives	-	-	64,327,603	9,730,648	53,407,661	23,032,656	-	150,498,568

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (i) Maturity analysis (Continued)

	31 December 2016							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Assets</b>								
Cash and deposits with central bank	49,897,913	21,477,834	-	-	-	-	-	71,375,747
Deposits with banks and other financial institutions	-	13,860,390	12,323,000	24,913,000	39,693,400	-	-	90,789,790
Placements with banks and other financial institutions	-	-	18,430,000	1,000,000	1,708,110	-	-	21,138,110
Financial assets held under resale agreements	-	-	16,039,394	-	-	-	-	16,039,394
Loans and advances to customers	2,929,533	1,067,845	9,528,558	15,038,515	103,244,460	85,744,428	11,327,393	228,880,732
Financial investments (Note (i))	384,025	-	34,497,338	48,647,691	202,460,809	140,434,816	36,941,019	463,365,698
Others	6,643,244	101,939	1,547,966	1,502,765	4,081,340	15,922	-	13,893,176
<b>Total assets</b>	<b>59,854,715</b>	<b>36,508,008</b>	<b>92,366,256</b>	<b>91,101,971</b>	<b>351,188,119</b>	<b>226,195,166</b>	<b>48,268,412</b>	<b>905,482,647</b>
<b>Liabilities</b>								
Borrowings from central bank	-	-	(53,000,000)	(6,000,000)	(59,800,000)	-	-	(118,800,000)
Deposits from banks and other financial institutions	-	(10,913,786)	(15,467,820)	(41,597,152)	(69,886,772)	(5,513,000)	-	(143,378,530)
Placements from banks and other financial institutions	-	-	(30,851,170)	(5,678,086)	(2,411,645)	-	-	(38,940,901)
Financial assets sold under repurchase agreements	-	-	(39,973,070)	(55,497)	(257,024)	-	-	(40,285,591)
Deposits from customers	-	(100,955,502)	(31,667,707)	(22,441,803)	(100,898,876)	(154,082,246)	(5,200,025)	(415,246,159)
Debt securities issued	-	-	(15,222,964)	(20,346,508)	(29,519,709)	(10,000,000)	(12,200,000)	(87,289,181)
Others	-	(3,828,923)	(2,061,977)	(1,621,260)	(4,119,550)	(3,315,348)	(220,601)	(15,167,659)
<b>Total liabilities</b>	<b>-</b>	<b>(115,698,211)</b>	<b>(188,244,708)</b>	<b>(97,740,306)</b>	<b>(266,893,576)</b>	<b>(172,910,594)</b>	<b>(17,620,626)</b>	<b>(859,108,021)</b>
<b>Long/(short) position</b>	<b>59,854,715</b>	<b>(79,190,203)</b>	<b>(95,878,452)</b>	<b>(6,638,335)</b>	<b>84,294,543</b>	<b>53,284,572</b>	<b>30,647,786</b>	<b>46,374,626</b>
Notional amount of derivatives	-	-	3,665,110	7,132,970	8,598,617	-	-	19,396,697

#### Notes:

- (i) Financial investments include available-for-sale financial assets, held-to-maturity investment and loans and receivables.
- (ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance not impaired but overdue within one month is included in “repayable on demand”.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (ii) Analysis on contractual undiscounted cash flows of financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of the reporting period:

	31 December 2017					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(48,857,141)	(37,717,747)	(11,139,394)	-	-	-
Deposits from banks and other financial institutions	(156,402,978)	(70,293,718)	(51,158,598)	(34,835,854)	(114,808)	-
Placements from banks and other financial institutions	(51,649,828)	(36,749,248)	(8,958,670)	(5,941,910)	-	-
Financial assets sold under repurchase agreements	(75,662,739)	(75,227,347)	(435,392)	-	-	-
Deposits from customers	(492,659,131)	(198,783,775)	(42,296,870)	(72,295,719)	(179,282,725)	(42)
Debt securities issued	(150,051,680)	(61,465,960)	(37,550,000)	(15,838,960)	(13,883,840)	(21,312,920)
Other financial liabilities	(19,490,410)	(659,930)	(1,167,050)	(17,663,430)	-	-
<b>Total non-derivative financial liabilities</b>	<b>(994,773,907)</b>	<b>(480,897,725)</b>	<b>(152,705,974)</b>	<b>(146,575,873)</b>	<b>(193,281,373)</b>	<b>(21,312,962)</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (ii) Analysis on contractual undiscounted cash flows of financial liabilities (Continued)

	31 December 2016					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(121,093,995)	(53,455,126)	(6,167,563)	(61,471,306)	-	-
Deposits from banks and other financial institutions	(146,918,821)	(26,508,193)	(42,504,532)	(72,178,148)	(5,727,948)	-
Placements from banks and other financial institutions	(39,019,435)	(30,864,875)	(5,712,294)	(2,442,266)	-	-
Financial assets sold under repurchase agreements	(40,296,402)	(39,981,261)	(55,573)	(259,568)	-	-
Deposits from customers	(437,463,676)	(130,513,688)	(23,859,975)	(102,307,827)	(174,216,870)	(6,565,316)
Debt securities issued	(93,910,680)	(15,250,000)	(20,450,000)	(30,854,960)	(12,919,840)	(14,435,880)
Other financial liabilities	(1,558,383)	(786,996)	(584,815)	(186,572)	-	-
Total non-derivative financial liabilities	<u>(880,261,392)</u>	<u>(297,360,139)</u>	<u>(99,334,752)</u>	<u>(269,700,647)</u>	<u>(192,864,658)</u>	<u>(21,001,196)</u>

This analysis of the non-derivative financial assets and liabilities by contractual undiscounted cash flow might vary from actual results.

##### (iii) Analysis on contractual undiscounted cash flows of derivatives

The Group's derivatives that will be settled on a net basis include:

- Interest rate swaps

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

The Group's derivatives that will be settled on a gross basis include:

- Currency swaps
- Foreign exchange forwards
- Precious metal derivatives

The following tables analyse the Group's contractual undiscounted cash flows of derivative financial instruments to be settled on a net and gross basis as at the end of the reporting period.

	31 December 2017					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
<b>Derivatives settled on net basis</b>						
Interest rate swaps	(5,910)	-	-	(3,135)	(2,775)	-
<b>Derivatives settled on gross basis</b>						
Currency swaps and foreign exchange forwards						
– cash outflow	(46,081,440)	(29,658,443)	(6,977,354)	(9,445,643)	-	-
– cash inflow	45,439,585	29,329,556	6,805,943	9,304,086	-	-
Precious metal derivatives						
– cash outflow	(18,718,536)	-	-	(18,718,536)	-	-
– cash inflow	19,124,940	-	-	19,124,940	-	-



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

	31 December 2016					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and	Between three months and	Between one year and	More than
			three months (inclusive)	one year (inclusive)	five years (inclusive)	five years and indefinite
<b>Derivatives settled on gross basis</b>						
Currency swaps and foreign exchange forwards						
- cash outflow	(19,077,270)	(3,644,676)	(7,020,732)	(8,411,862)	-	-
- cash inflow	19,282,339	3,661,839	7,136,195	8,484,305	-	-
Precious metal derivatives						
- cash outflow	(145,640)	-	-	(145,640)	-	-
- cash inflow	136,975	-	-	136,975	-	-

#### (d) Operational risk

Operational risk refers to the risk of losses associated with internal process deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has built “Three Lines of Defense for Risk Management” mainly involving business departments, the Compliance Department and the Internal Audit Department in risk management, and established a reporting mechanism between the Compliance Department and business departments, as well as between the head office and branches.

The Group has formulated operational risk management policies and procedures, aiming to identify, assess, monitor, control and mitigate the operational risk, and reduce losses associated with the operational risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (d) Operational risk (Continued)

The Group's measures to manage the operational risk mainly include:

- establishing and improving the risk management system, strictly separating responsibilities of the front, middle and back office, and optimising business procedures and risk management procedures;
- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; updating operational risk guidelines from time to time; carrying out centralised risk management on major business areas so as to reduce business operational risk;
- establishing a supervision system combining “on-site and off-site”, “regular and special”, “self and external” examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralised operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and
- establishing a mechanism for emergency management and business continuity.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 39 RISK MANAGEMENT (Continued)

#### (e) Capital management

The Group manages capital mainly through capital adequacy ratio and return on equity ratio. Capital adequacy ratio is at the core of the Group's capital management, reflecting capacity of the Group for prudent operation and risk prevention. Return on equity ratio reflects the profitability of equity. The main objective of capital management is to maintain a balanced reasonable capital amount and structure in line with the business development and expected return on equity.

The Group follows the principles below with regard to capital management:

- monitor levels of asset quality based on the Group's business strategy and maintain adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements; and
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain the appropriate level of capital after considering the Group's risk exposure and risk management needs.

The Group monitors the capital adequacy ratio periodically and adjusts the capital management plan when necessary to ensure the capital adequacy ratio meets both the regulatory requirements and business development demand.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 31 December 2017 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	Note	31 December 2017	31 December 2016
Total core tier-one capital			
– Share capital		5,796,680	5,796,680
– Qualifying portion of capital reserve		11,855,505	11,855,505
– Surplus reserve		5,352,502	4,666,968
– General reserve		11,034,031	9,267,100
– Fair value reserve		(335,375)	(92,044)
– Retained earnings		17,984,108	14,305,688
– Qualifying portions of non-controlling interests		31,285	462,462
– Others		(6,076)	(5,468)
		<u>51,712,660</u>	<u>46,256,891</u>
Core tier-one capital		51,712,660	46,256,891
Core tier-one capital deductions		(108,088)	(91,496)
		<u>51,604,572</u>	<u>46,165,395</u>
Net core tier-one capital		51,604,572	46,165,395
Other tier-one capital		–	–
		<u>51,604,572</u>	<u>46,165,395</u>
Net tier-one capital		51,604,572	46,165,395

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 39 RISK MANAGEMENT (Continued)

#### (e) Capital management (Continued)

	Note	31 December 2017	31 December 2016
Tier-two capital			
– Qualifying portions of tier-two capital instruments issued		18,200,000	12,200,000
– Surplus provision for loan impairment		<u>3,574,801</u>	<u>2,429,598</u>
Net tier-two capital		<u>21,774,801</u>	<u>14,629,598</u>
Net capital base		<u>73,379,373</u>	<u>60,794,993</u>
Total risk weighted assets	39(e)(i)	<u>571,122,793</u>	<u>507,222,708</u>
Core tier-one capital adequacy ratio		9.04%	9.10%
Tier-one capital adequacy ratio		9.04%	9.10%
Capital adequacy ratio		12.85%	11.99%

*Notes:*

- (i) Both the on-balance and off-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 as well as any eligible collateral or guarantees.
- (ii) Pursuant to the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), the CBRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 10.1%, 8.1% and 7.1%, respectively, at 31 December 2017.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 40 FAIR VALUE

#### (a) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair values, which specified the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 40 FAIR VALUE (Continued)

#### (a) Methods and assumptions for measurement of fair value (Continued)

The Group adopts the following methods and assumptions when evaluating fair values:

##### **(i) Debt securities investments**

The fair values of debt securities 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 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**

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards, swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and Black-Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc..

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 40 FAIR VALUE (Continued)

#### (b) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	31 December 2017			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivative financial assets				
– currency derivatives	–	302,667	–	302,667
– interest derivatives	–	1,550	–	1,550
– precious metal derivatives	–	125,169	–	125,169
Available-for-sale financial assets				
– debt instruments	–	53,273,704	–	53,273,704
– investment funds	50,071,375	–	–	50,071,375
Total	<u>50,071,375</u>	<u>53,703,090</u>	<u>–</u>	<u>103,774,465</u>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities				
– currency derivatives	–	(1,142,050)	–	(1,142,050)
– interest derivatives	–	(7,460)	–	(7,460)
– precious metal derivatives	–	(119,369)	–	(119,369)
Total	<u>–</u>	<u>(19,822,766)</u>	<u>–</u>	<u>(19,822,766)</u>

During the year ended 31 December 2017, there were no significant transfers between instruments in Level 1 and Level 2.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 40 FAIR VALUE (Continued)

#### (b) Financial instruments recorded at fair value (Continued)

	31 December 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivative financial assets				
– currency derivatives	–	273,416	–	273,416
– precious metal derivatives	–	3,130	–	3,130
Available-for-sale financial assets				
– debt instruments	–	45,944,882	–	45,944,882
Total	–	46,221,428	–	46,221,428
<b>Liabilities</b>				
Derivative financial liabilities				
– currency derivatives	–	(14,206)	–	(14,206)
Total	–	(14,206)	–	(14,206)

During the year ended 31 December 2016, there were no significant transfers between instruments in Level 1 and Level 2.

#### (c) Level 2 fair value measurement

A majority of the debt instruments classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data. This level also includes a majority of OTC derivative contracts, the most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Bloomberg and Reuters. Financial liabilities at fair value through profit or loss mainly includes the financial liabilities related to precious metals, of which the fair value is determined based on the closing price provided by Shanghai Gold Exchange.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 40 FAIR VALUE (Continued)

#### (d) Fair value of financial assets and liabilities not carried at fair value

- (i) ***Cash and deposits with central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements, borrowings from central bank and financial investments classified as loans and receivables***

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

- (ii) ***Loans and advances to customers***

The fair value of loans and advances to customers is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

- (iii) ***Held-to-maturity investments***

The fair value for held-to-maturity investments is based on “bid” market prices or brokers’/dealers’ price quotations. If relevant market information is not available, the fair value is based on quote price of security products with similar characteristics such as credit risk, maturities and yield.

- (iv) ***Available-for-sale equity instruments***

Available-for-sale equity investments are unlisted shares. There is no active market for these investments and it is the Group’s intention to dispose of them as opportunities arise.

- (v) ***Deposits from customers***

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 40 FAIR VALUE (Continued)

#### (d) Fair value of financial assets and liabilities not carried at fair value (Continued)

##### (vi) Debt securities issued

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments and debt securities issued:

	31 December 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Held-to-maturity investments	224,536,165	218,352,067	–	218,352,067	–
Total	<u>224,536,165</u>	<u>218,352,067</u>	<u>–</u>	<u>218,352,067</u>	<u>–</u>
<b>Financial liabilities</b>					
Debt securities issued					
– tier two capital bonds and financial bonds	25,200,000	24,335,804	–	24,335,804	–
– certificates of interbank deposit	115,720,240	114,346,961	–	114,346,961	–
Total	<u>140,920,240</u>	<u>138,682,765</u>	<u>–</u>	<u>138,682,765</u>	<u>–</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 40 FAIR VALUE (Continued)

#### (d) Fair value of financial assets and liabilities not carried at fair value (Continued)

##### (vi) Debt securities issued (Continued)

	31 December 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Held-to-maturity investments	171,504,761	170,708,662	–	170,708,662	–
Total	<u>171,504,761</u>	<u>170,708,662</u>	<u>–</u>	<u>170,708,662</u>	<u>–</u>
<b>Financial liabilities</b>					
Debt securities issued					
– tier two capital bonds and financial bonds	19,200,000	19,012,624	–	19,012,624	–
– certificates of interbank deposit	68,089,181	67,110,236	–	67,110,236	–
Total	<u>87,289,181</u>	<u>86,122,860</u>	<u>–</u>	<u>86,122,860</u>	<u>–</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 41 COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and letters of guarantees.

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 its customers. The contractual amounts of 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.

	31 December 2017	31 December 2016
Bank acceptances	159,837,668	142,948,098
Letters of guarantees	4,559,588	3,468,830
Letters of credit	6,384,633	6,025,207
Unused credit card commitments	2,246,054	2,146,488
Total	<u>173,027,943</u>	<u>154,588,623</u>

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 41 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

#### (b) Credit risk-weighted amount

	31 December 2017	31 December 2016
Credit risk-weighted amount of contingent liabilities and commitments	95,485,164	71,987,378

The credit risk weighted amount represents the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights range from 0% to 150% for credit commitments.

#### (c) Operating lease commitments

As at 31 December 2017 and 2016, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	31 December 2017	31 December 2016
Within one year (inclusive)	144,113	125,598
After one year but within five years (inclusive)	408,055	400,401
After five years	118,177	127,878
Total	670,345	653,877

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 41 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

#### (d) Capital commitments

As at 31 December 2017 and 2016, the authorised capital commitments of the Group are as follows:

	31 December 2017	31 December 2016
Contracted but not paid for	484,443	1,388,595
Approved but not contracted for	22,161	100,422
Total	506,604	1,489,017

#### (e) Outstanding litigations and disputes

As at 31 December 2017, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

#### (f) Pledged assets

	31 December 2017	31 December 2016
Investment securities	230,677,111	162,344,382
Discounted bills	–	312,521
Total	230,677,111	162,656,903

Some of the Group's assets are pledged as collateral under repurchase agreements and deposits from customers.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 41 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

#### (f) Pledged assets (Continued)

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2017 and 2016, the pledged assets were not sold or repledged, which it has an obligation to repurchase on due.

### 42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

#### (a) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and financed through the issue of notes to investors.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

#### (a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 2017 and 2016 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	31 December 2017		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	137,276,867	137,276,867	137,276,867
Investment management products under trust scheme	99,736,701	99,736,701	99,736,701
Wealth management products issued by financial institutions	2,500,000	2,500,000	2,500,000
<b>Total</b>	<b>239,513,568</b>	<b>239,513,568</b>	<b>239,513,568</b>

	31 December 2016		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	156,798,192	156,798,192	156,798,192
Investment management products under trust scheme	69,940,838	69,940,838	69,940,838
Wealth management products issued by financial institutions	20,072,000	20,072,000	20,072,000
<b>Total</b>	<b>246,811,030</b>	<b>246,811,030</b>	<b>246,811,030</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### **42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)**

#### **(a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)**

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amounts of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

#### **(b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interest**

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 notes to investors. Interest held by the Group includes fees charged by providing management services.

During the year ended 31 December 2017, the amount of fee and commission income received from the abovementioned structured entities by the Group is RMB479.53 million (2016: RMB388.98 million).

As at 31 December 2017, the amount of assets held by unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB43,702 million (31 December 2016: RMB58,589 million).

During the year ended 31 December 2017, the aggregated amount of non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2017, but matured before 31 December 2017, is RMB64,060 million (2016: RMB82,488 million).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*(Expressed in thousands of RMB, unless otherwise stated)*

### 42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

#### (b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interest (Continued)

In addition, unconsolidated structured entities sponsored by the Bank also include trust schemes. In 2015, the Bank transferred a portfolio of corporate loans with carrying amounts of RMB5,900 million to unconsolidated trust schemes managed by an independent trust company, which issued asset-backed securities to investors. The Bank acquired 5% of the issued asset-backed securities from the structured entities. As at 31 December 2017, the carrying amounts of these asset-backed securities held by the Bank are nil (31 December 2016: RMB12 million) as they are liquidated, which are also the amounts that best represent the maximum exposure to loss. Under the servicing arrangements with the trust company, the Bank would collect the cash flows of the corporate loans on behalf of the unconsolidated structured entities. In return, the Bank would receive a fee that is expected to compensate the Bank for servicing the related assets. The Bank transfers substantially all of the risks and rewards of ownership of the financial assets to the unconsolidated structured entities and retains a relatively small interest in the vehicle or the servicing arrangement in respect of the corporate loans, these transferred corporate loans are derecognised in their entirety.

### 43 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are principal-guaranteed wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties. The Group does not hold any shares of the principal-guaranteed wealth management products, however, the Group has the authority to exercise the right of making investment decisions as a main administrator, and the proportion of the aggregate economic interests of the Group in the structured entities is high. The Group concludes that these structured entities shall be consolidated.

As at 31 December 2017, the principal-guaranteed wealth management products managed and consolidated by the Group amounted to RMB3,165 million (31 December 2016: RMB1,485 million). These wealth management products mainly invested in deposits with banks and other financial institutions. The financial impact of these principal-guaranteed wealth management product on the Group's financial performance is not significant.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 44 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at 31 December 2017, the entrusted loans balance of the Group is RMB6,680 million (31 December 2016: RMB38,392 million).

### 45 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the 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 recognised in the period in which the estimate is revised and in any future periods affected.

#### **(a) Impairment losses on loans and advances to customers and financial investments (available-for-sale financial assets, held-to-maturity investments and loans and receivables)**

The Group reviews portfolios of loans and advances to customers and financial investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances to customers and financial investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances to customers, and debt investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgments based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### **45 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)**

#### **(a) Impairment losses on loans and advances to customers and financial investments (available-for-sale financial assets, held-to-maturity investments and loans and receivables) (Continued)**

The objective evidence of impairment for an available-for-sale equity investment includes significant or prolonged decline in its fair value below its cost. When deciding whether there is significant or prolonged decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

#### **(b) 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.

#### **(c) Classification of 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 judgments. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### 45 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

#### **(d) Income taxes**

Determining income tax provisions involves judgment 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 tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

#### **(e) 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) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's, related operating income and expenses and discount 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 related operating income and expenses based on reasonable and supportable assumption.

#### **(f) Depreciation and amortisation**

Property and equipment and intangible assets are depreciated and amortised 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 amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 45 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

#### (g) Consolidation of structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement.

When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the structured entity, when it acts as manager and cannot be removed without cause, has variable returns through significant unit holdings and/or a guarantee, and is able to influence the returns of the structured entities by exercising its power.

### 46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 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 periods beginning on or after
IFRS 9, <i>Financial instruments</i>	1 January 2018
IFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
IFRS 2 Amendments, <i>Share-based payment</i>	1 January 2018
IAS 40 Amendments, <i>Investment property</i>	1 January 2018
IFRIC 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
IFRS 16, <i>Leases</i>	1 January 2019
IFRIC 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
<i>Annual Improvements to IFRSs 2015–2017 cycle</i>	1 January 2019

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### **46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)**

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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. While the assessment has been substantially completed for IFRS 9, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

#### **(a) 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### **46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)**

#### **(a) IFRS 9, Financial instruments (Continued)**

Expected impacts of the new requirements on the Group's financial statements are as follows:

##### **(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 (FVTOCI):

- 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. If a debt instrument is classified as FVTOCI then interest revenue, impairment 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 FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### **46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)**

#### **(a) IFRS 9, Financial instruments (Continued)**

##### ***(i) Classification and measurement (Continued)***

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Trading assets and derivative assets held for risk management, which are classified as financial assets at fair value through profit or loss and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and advances to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Held-to-maturity investments measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- 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.
- Debt investment securities that are classified as available-for-sale financial assets under IAS 39 may, under IFRS 9, may be measured at FVOCI or FVTPL, depending on the particular circumstances.
- Available-for-sale equity instruments will be designated as at FVOCI under IFRS 9.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*(Expressed in thousands of RMB, unless otherwise stated)*

### **46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)**

#### **(a) IFRS 9, Financial instruments (Continued)**

##### **(i) Classification and measurement (Continued)**

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

##### **(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 a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

##### **(iii) Hedge accounting**

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group currently does not have any hedge business and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### **46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)**

#### **(a) IFRS 9, Financial instruments (Continued)**

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 less than 2% as a result of the new requirements on classification and measurement, and impairment as compared with that recognised under IAS 39.

#### **(b) 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 47 BANK-LEVEL STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	31 December 2017	31 December 2016
<b>Assets</b>			
Cash and deposits with central bank		84,121,193	71,304,638
Deposits with banks and other financial institutions		34,834,153	90,429,286
Precious metal		274,310	–
Placements with banks and other financial institutions		34,327,733	21,138,110
Derivative financial assets		429,386	276,546
Financial assets held under resale agreements		20,339,752	16,039,394
Loans and advances to customers		271,219,989	228,364,440
Financial investments:			
Available-for-sale financial assets		103,729,104	46,288,907
Held-to-maturity investments		224,496,165	171,434,761
Loans and receivables		238,100,568	245,532,030
Investments in subsidiaries	21	326,157	326,157
Property and equipment		5,345,157	4,800,319
Deferred tax assets		1,961,293	1,406,339
Other assets		10,123,956	7,373,340
<b>Total assets</b>		<b>1,029,628,916</b>	<b>904,714,267</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 47 BANK-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	Note	31 December 2017	31 December 2016
<b>Liabilities</b>			
Borrowings from central bank		48,160,000	118,800,000
Deposits from banks and other financial institutions		153,732,895	143,634,051
Placements from banks and other financial institutions		51,323,948	38,936,401
Financial liabilities at fair value through profit or loss		18,553,887	–
Derivative financial liabilities		1,268,879	14,206
Financial assets sold under repurchase agreements		75,623,265	40,285,591
Deposits from customers		473,131,116	414,850,000
Income tax payable		217,020	1,018,122
Debt securities issued		140,920,240	87,289,181
Other liabilities		15,053,501	14,126,040
<b>Total liabilities</b>		<b>977,984,751</b>	<b>858,953,592</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 47 BANK-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	Note	31 December 2017	31 December 2016
<b>Equity</b>			
Share capital	32	5,796,680	5,796,680
Capital reserve	32	11,855,505	11,855,505
Surplus reserve	32	5,352,502	4,666,968
General reserve	32	11,027,347	9,263,993
Fair value reserve	32	(335,375)	(92,044)
Deficit on remeasurement of net defined benefit liability	32	(6,076)	(5,468)
Retained earnings	32	17,953,582	14,275,041
<b>Total equity</b>		<u>51,644,165</u>	<u>45,760,675</u>
<b>Total liabilities and equity</b>		<u>1,029,628,916</u>	<u>904,714,267</u>

Approved and authorised for issue by the board of directors on 23 March 2018.

**Zhang Qiyang**

*Chairman of Board of Directors*

**Sun Yongsheng**

*Vice President*

**Liu Zhiyan**

*Chief Financial Officer*

**Company chop**

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*(Expressed in thousands of RMB, unless otherwise stated)*

### **48 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD**

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 35.

Except for the above, the Group has no other significant non-adjusted events subsequent to the end of the reporting period as at the date of approval to the financial statements.



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of RMB, 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

	Average for		Average for	
	As at	the year ended	As at	the year ended
	31 December	31 December	31 December	31 December
	2017	2017	2016	2016
Liquidity coverage ratio (RMB and foreign currency)	134.85%	157.38%	184.22%	160.67%

The above liquidity coverage ratio is calculated in accordance with the formula promulgated by the China Banking Regulatory Commission (the “CBRC”) and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (“MOF”).

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

The Hong Kong Banking (Disclosure) Rules (the “Rules”) took effect on 1 January 2007. It requires the disclosure of an average liquidity coverage ratio, which is the arithmetic mean of the liquidity coverage ratio for each calendar quarter. The Group prepares the liquidity coverage ratio on a semi-annual basis and the disclosed average liquidity coverage ratio is the arithmetic mean of two consecutive liquidity coverage ratio as at 30 June and 31 December.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (Continued)

#### (b) Leverage ratio

	31 December 2017	31 December 2016
Leverage ratio	4.31%	4.38%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) 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 is calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF.

### 2 CURRENCY CONCENTRATIONS

	31 December 2017			
	US Dollars (RMB Equivalent)	HK Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Spot assets	19,880,272	693,154	705,456	21,278,882
Spot liabilities	(46,387,996)	(668,631)	(702,148)	(47,758,775)
Net long position	(26,507,724)	24,523	3,308	(26,479,893)

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 2 CURRENCY CONCENTRATIONS (Continued)

	31 December 2016			
	US Dollars (RMB Equivalent)	HK Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Spot assets	18,416,036	204,266	814,043	19,434,345
Spot liabilities	<u>(28,501,578)</u>	<u>(313,772)</u>	<u>(814,043)</u>	<u>(29,629,393)</u>
Net long position	<u>(10,085,542)</u>	<u>(109,506)</u>	<u>–</u>	<u>(10,195,048)</u>

The Group has no structural position at the reporting periods.

### 3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions, and investments in debt securities.

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.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 3 INTERNATIONAL CLAIMS (Continued)

	As at 31 December 2017			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	755,321	17,196,026	2,691,578	20,642,925
North and South America	–	432,957	–	432,957
Europe	–	25,154	–	25,154
<b>Total</b>	<b>755,321</b>	<b>17,654,137</b>	<b>2,691,578</b>	<b>21,101,036</b>

	As at 31 December 2016			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	80,130	14,539,342	3,588,617	18,208,089
North and South America	–	1,168,506	–	1,168,506
Europe	–	28,131	–	28,131
<b>Total</b>	<b>80,130</b>	<b>15,735,979</b>	<b>3,588,617</b>	<b>19,404,726</b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

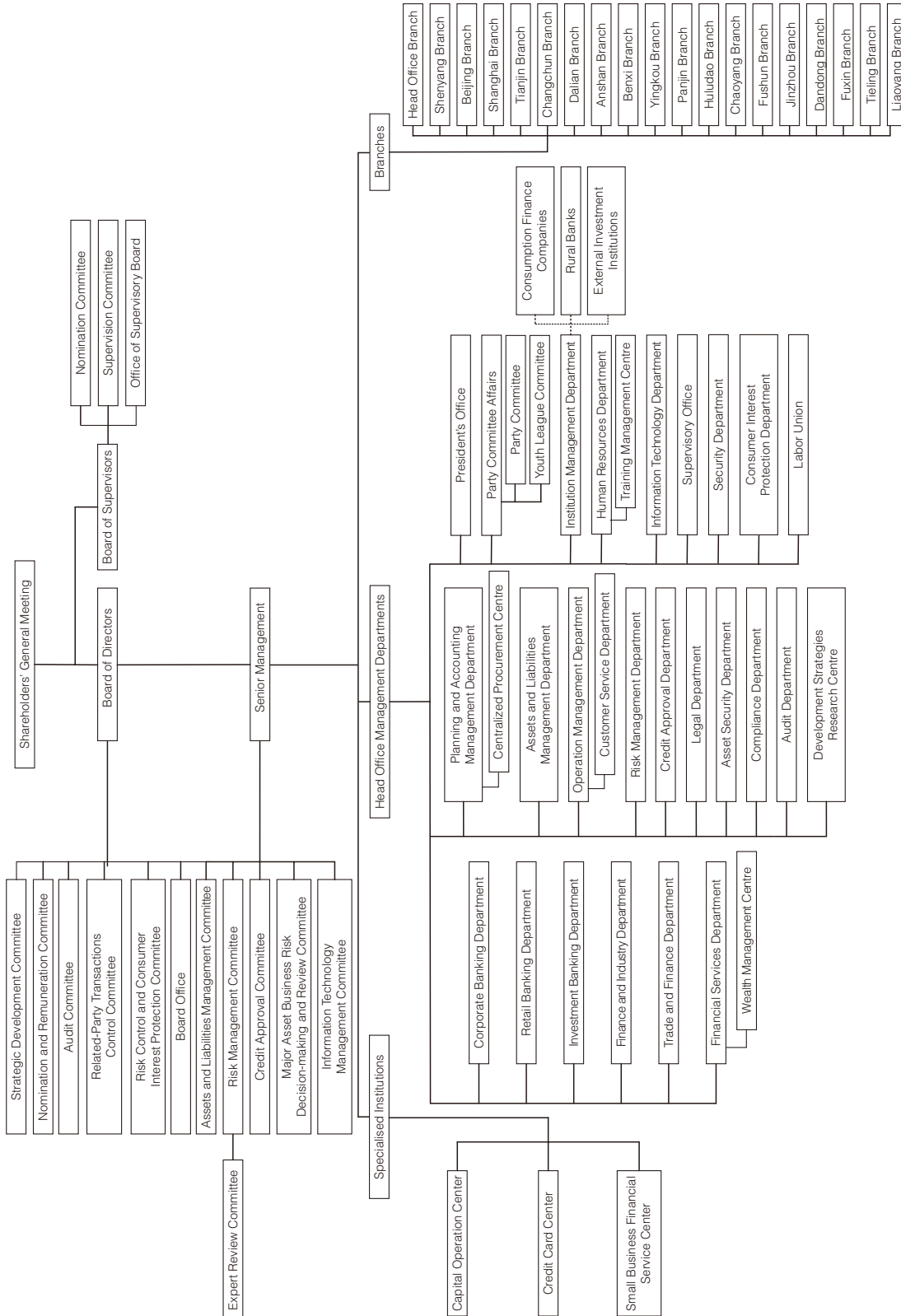
### 4 OVERDUE LOANS AND ADVANCES BY GEOGRAPHICAL SEGMENTS

	31 December 2017	31 December 2016
Northeast China	4,856,265	5,684,495
North China	380,701	293,022
Others	75,288	188,818
Total	<u>5,312,254</u>	<u>6,166,335</u>

### 5 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES FOR MORE THAN 90 DAYS

	31 December 2017	31 December 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)	92,486	288,897
– between 6 months and 1 year (inclusive)	543,598	3,044,993
– over 1 year	3,432,012	570,469
Total	<u>4,068,096</u>	<u>3,904,359</u>
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.03%	0.12%
– between 6 months and 1 year (inclusive)	0.20%	1.30%
– over 1 year	1.23%	0.24%
Total	<u>1.46%</u>	<u>1.66%</u>

# ORGANISATIONAL CHART



## LIST OF BRANCHES

As at 31 December 2017, the Bank has a total of 201 institutions, branches and sub-branches, including one institution with legal person status, three specialised institutions, 18 branches, eight small and micro sub-branches and 171 sub-branches, details of which are set out as follows:

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Head Office	No. 109, North Station Road, Shenhe District, Shenyang City	024-22535995	110013	024-22535995
Liaoning Province	Shenyang Branch	No. 2A, Wuai Street, Shenhe District, Shenyang City	024-83962659	110013	024-83962659
	Xinmin Sub-Branch	No. 3, Zhongxing East Road, Xinmin City	024-27601509	110300	024-27855959
	Hongxia Sub-Branch	No. 38, Beiwujing Street, Heping District, Shenyang City	024-62250313	110003	024-62250313
	Nanshi Sub-Branch	No. 7, Nansanjing Street, Shenhe District, Shenyang City	024-22710606	110013	024-22710606
	Xiaoxi Road Sub-Branch	Unit 1, Floor 1, Tower B, No. 59-1, Qingnian Street, Shenhe District, Shenyang City	024-84842085	110014	024-62250411
	Taiyuan Sub-Branch	No. 92, Shengli South Street, Heping District, Shenyang City	024-83507595	110051	024-83507595
	Yuanlu Sub-Branch	No. 21, North 4th Road, Heping District, Shenyang City	024-23415516	110001	024-22712059
	Hetai Sub-Branch	Gate 3, No. 107, Nanjing North Street, Heping District, Shenyang City	024-22870771	110001	024-22870771
	Medical University Sub-Branch	No. 92, North 2nd Road, Heping District, Shenyang City	024-83282796	110001	024-22700070
	Beishi Sub-Branch	No. 218, Shifu Avenue, Heping District, Shenyang City	024-62502761	110001	024-62502761
	South Station Sub-Branch	No. 38, Zhongshan Road, Heping District, Shenyang City	024-23410251	110001	024-83465528
	Tianhe Sub-Branch	Unit 101 & 102, No. 5, Zhongshan Road, Heping District, Shenyang City	024-22834041	110001	024-83465328
	Sujiatun Sub-Branch	No. 60, Fengyang Road, Sujiatun District, Shenyang City	024-89811137	110101	024-89811137
	Changbai Sub-Branch	A1 & 2, No. 62, Changbai West Road, Heping District, Shenyang City	024-23732950	110001	024-23732950
	Fengyang Sub-Branch	Gate 1 and 53, No. 107, Fengyang Road, Sujiatun, Shenyang City	024-89825773	110101	024-89825773
	Huashan Sub-Branch	No. 76, Harbin Road, Heping District, Shenyang City	024-22501048	110001	024-22510401
	Longjiang Sub-Branch	1-8A-B, No. 19, Heilongjiang Street, Huanggu District, Shenyang City	024-86252574	110033	024-86252574
	West Tower Sub-Branch	No. 42, West Tower Street, Heping District, Shenyang City	024-23469142	110001	024-23469142
	Huaxin Sub-Branch	No. 12, Huashan Road, Huanggu District, Shenyang City	024-86413380	110031	024-86413380

## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Xinhe Sub-Branch	No. 98, Shashan Street, Heping District, Shenyang City	024-23304214	110005	024-23304214
	Huoju Sub-Branch	No. 262 A, Shifu Avenue, Shenhe District, Shenyang City	024-22790353	110013	024-22502968
	Sanhao Sub-Branch	No. 87 A-1, South Sanhao Street, Heping District, Shenyang City	024-23992357	110057	024-23992357
	Jiaoyu Sub-Branch	No. 55, 2nd Longitude Street, Shenhe District, Shenyang City	024-22840330	110068	024-22840330
	Keji Sub-Branch	Gate 2 (Floors 1-2), No. 318, Qingnian Street, Heping District, Shenyang City	024-23997390	110001	024-23997390
	Dongquan Sub-Branch	No. 16, Quanyuan 1st Road, Shenhe District, Shenyang City	024-24233911	110015	024-24233911
	Nanhu Sub-Branch	No. 21 A-1, Sanhao Street, Heping District, Shenyang City	024-23895215	110001	024-23895215
	Heping Sub-Branch	No. 96, Taiyuan South Street, Heping District, Shenyang City	024-23518649	110001	024-23528647
	Nanjing Street Sub-Branch	No. 45, Nanjing South Street, Heping District, Shenyang City	024-23523225	110001	024-23523225
	Shengli Sub-Branch	No. 14 and 16, Changbai 4th Street, Heping District, Shenyang City	024-23523044	110166	024-23523044
	Dongxing Sub-Branch	No. 429 (Gates 11-12), Da'nan Street, Shenhe District, Shenyang	024-24516360	110016	024-24516360
	Baogong Sub-Branch	No. 15, Baogong South Street, Tiexi District, Shenyang City	024-25877959	110027	024-25642938
	Baoxing Sub-Branch	No. 29, Xinghua North Street, Tiexi District, Shenyang City	024-25112720	110027	024-25112720
	Tengfei Sub-Branch	No. 57, Tengfei 1st Street, Tiexi District, Shenyang City	024-25931567	110027	024-25931567
	Xinggong Sub-Branch	No. 108, Xinggong North Street, Tiexi District, Shenyang City	024-62635353	110013	024-62635353
	Tiexi Sub-Branch	No. 31, Jianshe Middle Road, Tiexi District, Shenyang City	024-25845362	110021	024-25845362
	Mazhuang Sub-Branch	No. 19, Mazhuang Street, Tiexi District, Shenyang City	024-25728349	110023	024-25728349
	Xinghua Sub-Branch	No. 14, Yanhua Street, Tiexi District, Shenyang City	024-25964572	110021	024-25964572
	Jianshe Avenue Sub-Branch	No. 8, Jianshe Middle Road, Tiexi District, Shenyang City	024-25866380	110021	024-25866380
	Yuhong Sub-Branch	No. 10, Huanghai Road, Yuhong District, Shenyang City	024-25833006	110144	024-25302940
	Tiecheng Sub-Branch	No. 36, Zhaogong South Street, Tiexi District, Shenyang City	024-25717902	110027	024-25717902
	Shuangxi Sub-Branch	No. 88, Zhonggong South Street, Tiexi District, Shenyang City	024-25787387	110027	024-25787387



## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Zhangshi Sub-Branch	No. 212, Shenliao Road, Shenyang Economic and Technological Development Zone	024-25280910	110027	024-25280910
	Economic and Technological Development Zone Sub-Branch	No. 21-A-5, Central Street, Shenyang Economic and Technological Development Zone	024-62836295	110142	024-62836295
	Jingxing Sub-Branch	No. 178, Xingshun Street, Tiexi District, Shenyang City	024-25445702	110027	024-25445702
	Huaxiang Sub-Branch	No. 18, Huaxiang Road, Tiexi District, Shenyang City	024-25890701	110027	024-25890701
	Xingshun Sub-Branch	(Gate 1) (Gate 2) (Gate 3) (Gate 4) (Gate 5) (Gate 6), No. 23-1, North Erzhong Road, Tiexi District, Shenyang City	024-25603723	110027	024-25603723
	Shenhe Sub-Branch	No. 2, Zhongjie Street, Shenhe District, Shenyang City	024-84842085	110011	024-84842085
	Shangyuan Sub-Branch	No. 34-A, Shangyuan Road, Dadong District, Shenyang City	024-88326157	110041	024-88326157
	Changqing Sub-Branch	Gate 6, 7, 8 & 9, No. 17-25, Changqing South Street, Dongling District, Shenyang City	024-31263205	110168	024-31263205
	North Station Sub-Branch	No. 27, Huigong East 1st Street, Shenhe District, Shenyang City	024-88522500	110013	024-88522942
	Yinhe Sub-Branch	No. 180, Xiaonan Street, Shenhe District, Shenyang City	024-24187108	110013	024-24187108
	Binhe Sub-Branch	No. 92, Da'nán Street, Shenhe District, Shenyang City	024-24810579	110013	024-24810579
	Wu'ai Market Sub-Branch	No. 65, Re'nao Road, Shenhe District, Shenyang City	024-24816598	110013	024-24800326
	Hengxin Sub-Branch	No. 51, Re'nao Road, Shenhe District, Shenyang City	024-31290372	110013	024-31290372
	Zhenghao Sub-Branch	No. 68, Pangjiang Street, Dadong Street, Shenyang City	024-24352501	110041	024-24352501
	Quanyuan Sub-Branch	No. 7, Fengle 2nd Street, Shenhe District, Shenyang City	024-24829409	110167	024-24829409
	Liaoshen Sub-Branch	No. 15, Jixiang 4th Road, Dadong District, Shenyang City	024-88113032	110041	024-88113032
	Dongshuncheng Sub-Branch	No. 2, Dongshuncheng Road, Shenhe District, Shenyang City	024-24867743	110042	024-24840919
	Jilong Sub-Branch	Gate 4, No. 68, Dadong Road, Dadong District, Shenyang City	024-24321649	110041	024-24321649
	Dadong Road Sub-Branch	No. 116, Dongshuncheng Street, Dadong District, Shenyang City	024-24845070	110041	024-24845070
	Jinsha Sub-Branch	No. 187, Daxi Road, Shenhe District, Shenyang City	024-22973253	110013	02-422973253
	Zhongxing Sub-Branch	No. 10, Zhongxing Street, Heping District, Shenyang City	024-23257337	110001	024-23218962
	Wenyi Road Sub-Branch	No. 2, Wu'ai Street, Shenhe District, Shenyang City	024-83962659	110013	024-22973289
	Zhongshan Sub-Branch	No. 206, Zhongshan Road, Shenhe District, Shenyang City	024-22820318	110013	024-22852026

## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Zhenxing Sub-Branch	Floor 1-3, Tower I, No. 181A, South 5th Road, Heping District, Shenyang City	024-23851150	110006	024-23851150
	Donghuan Sub-Branch	Gate 4 & 5, No. 37, Shentie Road, Dadong District, Shenyang City	024-22712154	110013	024-22712154
	Nanliu Sub-Branch	No. 16, South 8th Road, Heping District, Shenyang City	024-23508046	110005	024-23518201
	Minzhu Sub-Branch	No. 78, Heping North Street, Heping District, Shenyang	024-23266349	110001	024-23266349
	Zhaogong Sub-Branch	No. 3, Block 35, No. 26-A, North 2nd West Road, Tiexi District, Shenyang City	024-23830881	110026	024-25826756
	Hemu Road Sub-Branch	No. 15, Jingjiao Road, Dadong District, Shenyang City	024-24318875	110041	024-24318875
	Bajiazi Sub-Branch	No. 22, Dongling West Road, Dadong District, Shenyang City	024-88441405	110041	024-88441405
	Dongbei Avenue Sub-Branch	Gate 2, No. 301-19, Dongbei Avenue, Dadong District, Shenyang City	024-88217598	110098	024-88217598
	Dongling Sub-Branch	No. 105A, Wanliutang Road, Dongling District, Shenyang City	024-24200020	110167	024-24200020
	Fengle Sub-Branch	Gate 4, No. 72, Wenhua East Road, Shenhe District, Shenyang City	024-24222193	110167	024-24222193
	Hunnan Sub-Branch	Room 128, Floor 1, Block D, No. 109-4, Quanyun North Road, Hunnan New District, Shenyang City	024-83766268	110167	024-83766268
	Hepan New Town Sub-Branch	Gate 10 & 11, No. 1-436, Hengda Road, Hunnan New District, Shenyang City	024-24564181	110180	024-24564181
	Wanquan Sub-Branch	No. 35, Changqing Street, Shenhe District, Shenyang City	024-24212158	110015	024-24212158
	Jiahe Sub-Branch	Gate 7, No. 1, Fangming Street, Shenhe District, Shenyang City	024-24628495	110015	024-24628495
	204 Sub-Branch	No. 14, Liming 5th Street, Dadong District, Shenyang City	024-88417845	110043	024-88417845
	Dongmao Road Sub-Branch	Gate 2 & 3, No. 18A-42, Dongling Road, Shenhe District, Shenyang City	024-88421161	110161	024-88421161
	Shenbei New District Sub-Branch	No. 32, Yinhe Street, Shenbei New District, Shenyang City	024-89603246	110129	024-89603246
	Daoyi Sub-Branch	Gate 3 & 4, No. 55-5, Daoyi North Street, Shenbei New District, Shenyang City	024-89798932	110036	024-89798932
	Yaming Sub-Branch	No. 100, Kunshan Middle Road, Huanggu District, Shenyang City	024-86853560	110031	024-86852023
	Tawan Sub-Branch	Gate 1-2, No. 142, Kunshan West Road, Huanggu District, Shenyang City	024-86722014	110031	024-86722014
	Ningshan Sub-Branch	No. 64, Ningshang Middle Road, Huanggu District, Shenyang City	024-86240034	110031	024-86248026

## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Yalu River Sub-Branch	Gate 11, No. 63, Yalu River Street, Huanggu District, Shenyang City	024-86620510	110032	024-86620510
	Beihsuan Sub-Branch	Gate 1, No. 78, North Changjiang Street, Yuhong District, Shenyang City	024-86166201	110031	024-86166201
	Changjiang Sub-Branch	No. 59, Changjiang Street, Huanggu District, Shenyang City	024-86240850	110031	024-86240850
	Songling Sub-Branch	No. 88, Huanghe North Street, Yuhong District, Shenyang City	024-86520786	110144	024-86525512
	Nujiang Sub-Branch	Gate 1-1, 1-2, 1-3, 1-4, No. 36-7, Beigu Mountain Road, Yuhong District, Shenyang City	024-86515855	110031	024-86515855
	Nenjiang Sub-Branch	Gate 5, 6, 7 No. 7-4, East Yalu River Street, Huanggu District, Shenyang City	024-86250963	110031	024-86250963
	Taishan Sub-Branch	No. 8, East Chongshan Road, Yuhong District, Shenyang City	024-86629596	110144	024-86629576
	Wuyi Sub-Branch	No. 58, Liaohe Street, Huanggu District, Shenyang City	024-86840414	110031	024-86840414
	Xianggong Sub-Branch	No. 215, Huashan Road, Huanggu District, Shenyang City	024-86872900	110035	024-86872900
	Dabeiguan Sub-Branch	Gate 4, No. 42, Dabeiguan Street, Dadong District, Shenyang City	024-88565286	110041	024-88565286
	Faku Sub-Branch	Shops 105, 106, 107, 108 & 109, Building 6, No. 41, Bianmen Street, Faku Town, Faku County	024-31109166	110401	024-31109166
	Kangping Sub-Branch	Jianshe Street, Kangping Town, Kangping County	024-87335672	110500	024-87335672
	Liaozhong Sub-Branch	No. 106, Zhengfu Road, Liaozhong Town, Liaozhong County	024-87880580	110200	024-87880580
	Yunfeng Sub-Branch	No. 98, Xishuncheng Street, Shenhe District, Shenyang City	024-22535881	110013	024-22535881
	Huixin Small and Micro Sub-Branch	No. 10-92, Puhe North Road, Shenbei New District, Shenyang City	024-31851280	110136	024-31851280
	Huanghe Sub-Branch	Gate 1, No. 111, Huanghe South Street, Huanggu District, Shenyang City, Liaoning Province	024-86250963	110031	024-82555819
	Shenyang Road Sub-Branch	Gate 21, No. 15-5, Shenyang Road, Hunnan New District, Shenyang City, Liaoning Province	024-62346152	110180	024-62346152
	Dalian Branch	No. 160, Jiefang Road, Zhongshan District, Dalian City	0411-82566666	116001	0411-82311081
	Development Zone Sub-Branch	No. 37-1, Liaohe West Road, Dalian Economic and Technological Development Zone, Liaoning Province	0411-87571166	116600	0411-87571166
	Wafangdian Sub-Branch	No. 559-7, 8 & 9, Zhufeng Street, Wenlan Street Office, Wafangdian City, Liaoning Province	0411-85552255	116300	0411-85552329
	Wusi Sub-Branch	No. 10, Wusi Square, Shahekou District, Dalian City	0411-84652233	116021	0411-84650976

## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Xinghai Sub-Branch	No. 582, Zhongshan Road, Shahekou District, Dalian City, Liaoning Province	0411-88144433	116021	0411-88134387
	Yingkou Branch	No. 17, Riyue Avenue, Yingkou Economic and Technological Development Zone, Liaoning Province	0417-6818666	115007	0417-6818972
	Dashiqiao Sub-Branch	No. 28, Hada Middle Road, Dashiqiao City	0417-5826677	115100	0417-5826677
	Shifu Sub-Branch	No. 1-A-A-1, Huibin Road, Zhanqian District, Yingkou City	0417-4887700	115000	0417-4887700
	Huimin Sub-Branch	No. 21, Riyue Avenue, Yingkou Economic and Technological Development Zone	0417-6166642	115007	0417-6166642
	Xuefu Sub-Branch	No. 9-A4, North Xuefu Road, Zhanqian District, Yingkou City	0417-2922345	115000	0417-2922345
	Gaizhou Sub-Branch	Unit 2, Building 10, Longsheng Huayuan, Xinxing Community, Xicheng Street Office, Gaizhou City	0417-7331666	115200	0417-7331666
	Kunlun Sub-Branch	No. 80-2, South Section, Kunlun Street, Bayuquan District, Yingkou City, Liaoning Province	0417-6166600	115007	0417-6166629
	Huludao Branch	Building L&B, No. 145, Longwan Street, Longgang District, Huludao City	0429-3026666	125000	0429-3023015
	Lianshan Sub-Branch	Building A, No. 5, Lianshan Street, Lianshan District, Huludao City	0429-3023067	125000	0429-3023015
	Longgang Sub-Branch	No. 28, Longwan Street, Longgang District, Huludao City	0429-3023099	125000	0429-3023055
	Xingcheng Sub-Branch	Bihai Yaju Community, Diaoyutai Street Office, Xingcheng City	0429-5677773	125100	0429-5677773
	Suizhong Sub-Branch	No. 11, Section 2, Central Road, Suizhong County, Huludao City, Liaoning Province	0429-3258002	125200	0429-3258009
	East Xingcheng Small and Micro Sub-Branch	No. 28, Guangchang West Road, Xingcheng County-level City, Huludao City, Liaoning Province	0429-5813355	125100	0429-5813355
	Dongcheng Sub-Branch	Building A, B, C, No. 3-5, Fumin Street, Lianshan District, Huludao City, Liaoning Province	0429-3220707	125000	0429-3220708
	Anshan Branch	No. 5-A, Hunan Street, Tiedong District, Anshan City, Liaoning Province	0412-5931002	114000	0412-5931002
	Tiedong Sub-Branch	No. 24, Hunan Street, Tiedong District, Anshan City	0412-5841266	114000	0412-5841266
	Tiexi Sub-Branch	No. 178-S1, S2, S3 & S4, Jiudao Street, Tiexi District, Anshan City	0412-8592299	114014	0412-8592299
	Haicheng Sub-Branch	No. 4, Building 6-1, Baihuixiangshan Community, Dongguan Community, Haizhou Administrative Zone, Haicheng County-level City, Liaoning Province	0412-3355977	114200	0412-3355977

## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Xinxing Sub-Branch	No. 9-7, Guangming Street, Lishan District, Anshan City, Liaoning Province	0412-5916280	114031	0412-5916280
	Shengli Sub-Branch	No. 9-11, 9-12, Wuyi Road, Tiedong District, Anshan City, Liaoning Province	0412-5939993	114001	0412-5939993
	Benxi Branch	No. 4, Dongming Road, Pingshan District, Benxi City (Zhongxin Street, Pingshan District)	024-43106888	117000	024-43106881
	Mingshan Sub-Branch	No. 102, Jiefang North Road, Xinfeng Street, Mingshan District, Benxi City	024-45580666	117000	024-45580600
	Shengli Road Sub-Branch	Building 57, Shengli Road, Mingshan District, Benxi City	024-42966688	117000	024-42966133
	Pingshan Sub-Branch	No. 8, Building 31-6, Pingshan Road, Pingshan District, Benxi City, Liaoning Province	024-42966999	117000	024-42966199
	Benxi County Sub-Branch	No. 331, Changjiang Road, Xiaoshi Town, Benxi Manchu Autonomous County, Liaoning Province	024-43336111	117100	024-43335808
	Panjin Branch	No. 136, Xinglongtai Street, Xinglongtai District, Panjin City	0427-3290933	124010	0427-3290908
	Panjin Development Zone Sub-Branch	No. 236, Taishan Road, Xinglongtai District, Panjin City	0427-3267088	124010	0427-3290908
	Liaohe Oil Field Sub-Branch	No. 1-3 & 1-4, Xinyihe Community, Xinglongtai Street, Xinglongtai District, Panjin City	0427-3291090	124010	0427-3290908
	Panshan Sub-Branch	Room 102, Floor 1, Venture Building, No. 8, Fuqian Street, Panshan County, Panjin City, Liaoning Province	0427-3710099	124010	0427-3290908
	Shuangtaizi Sub-Branch	No. 156, Shengli Street, Shuangtaizi District, Panjin City, Liaoning Province	0427-3290908	124010	0427-3290908
	Panjin Leyuan Small and Micro Sub-Branch	No. 41-1, Leyuan Road, Xinglongtai District, Panjin City, Liaoning Province	0427-6590799	124010	0427-3290908
	Panjin Jinxiang Small and Micro Sub-Branch	No. 182-10-6, Xinglongtai Street, Xinglongtai District, Panjin City, Liaoning Province	0427-7860290	124010	0427-3290908
	Chaoyang Branch	No. 3-5, 3-6 & 3-7, Section 2, Zhujiang Road, Shuangta District, Chaoyang City	0421-2705555	122000	0421-3999903
	Shuangta Sub-Branch	No. 70, Section 4, Youyi Street, Shuangta District, Chaoyang City	0421-3999931	122000	0421-3999931
	Jianping Sub-Branch	No. 59, Renmin Road, Jianping County, Chaoyang City, Liaoning Province	0421-7868222	122400	0421-7867511
	Longcheng Sub-branch	No. 69-1 & 69-2, Section 5, Wenhua Road, Longcheng District, Chaoyang City, Liaoning Province	0421-3999939	122000	0421-3999911
	Fushun Branch	Room 2, 3 & 4, No. 57-7, Linjiang East Road, Shuncheng District, Fushun City	024-53903666	113006	024-53908003
	Xinfu Sub-Branch	Shop 2, Building 2, Wugong Street, Xinfu District, Fushun City	024-53965666	113008	024-53908003
	Wanghua Sub-Branch	Shop 1 & 2, Building 23, West Section, Leifeng Road, Wanghua District, Fushun City, Liaoning Province	024-53978966	113001	024-53908003

## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Dongzhou Sub-Branch	First Floor of Room 5 and First & Second Floor of Room 6, Non-residential Two-Floor Unit, No. 3, Dongzhou North Street, Dongzhou District, Fushun City, Liaoning Province	024-53986333	113006	024-53908003
	Yong'antai Small and Micro Sub-Branch	No. 102, Unit 2, Building 5, Beita Fifth Street, Xinfu District, Fushun City	024-53986333	113008	024-53908003
	Jinzhou Branch	No. 43-1, Area B of Lingyunli Manhattan, Taihe District, Jinzhou City	0416-2110900	121000	0416-2110911
	Yan'an Road Sub-Branch	No. 1-1, Jindijiyuan Community, Section 3, Yan'an Road, Guta District, Jinzhou City	0416-2110950	121000	0416-2110951
	Jiefang Road Sub-Branch	No. 8, 9, Section 171, Hangzhou Street, Linghe District, Jinzhou City, Liaoning Province	0416-2110988	121000	0416-2110990
	Central Avenue Sub-Branch	No. 26-52 & 26-53, Section 3, Jiefang Road, Guta District, Jinzhou City, Liaoning Province	0416-2110998	121000	0416-2110998
	Fuxin Branch	Gate 12, 14, 16, 18, 20, 22, No. 86, Zhonghua Road, Haizhou District, Fuxin City	0418-5699999	123000	0418-5969911
	Fumeng County Sub-Branch	No. 26-1-1-4, Building 26, Wenhua Road, Qiangmin Community, Fumeng County, Fuxin City, Liaoning Province	0418-3590116	123100	0418-3590100
	Dandong Branch	No. 70, Qingnian Street, Zhenxing District, Dandong City	0415-2946666	118000	0415-2946666
	Donggang Sub-Branch	No. 30, Jinxiu Jiayuan Community, Dadong Administrative Zone, Donggang County-level City, Dandong City, Liaoning Province	0415-2596666	118300	0415-2596666
	Liaoyang Branch	No. 155, Wensheng Road, Baita District, Liaoyang City, Liaoning Province	0419-3630555	111000	0419-3679305
	Hongwei Sub-Branch	No. 28, Jiankang Road, Hongwei District, Liaoyang City, Liaoning Province	0419-3679345	111000	0419-3679345
	Tieling Branch	No. 18 1-1, Yinzhou Road, Yinzhou District, Tieling City, Liaoning Province	024-72776666	112000	024-72273025
	Yinzhou Sub-Branch	Store 1, District C East, Building 22, No. 11, Huiyuan Community, Chaihe Street, Yinzhou District, Tieling City, Liaoning Province	024-72296666	112000	024-72273025
Beijing Municipality	Beijing Branch	Tower D, Oriental Media Centre, No. 4, Guanghua Road, Chaoyang District, Beijing Municipality	010-85597777	100026	010-25570017
	Zhongguancun Sub-Branch	Unit 108 & 109, Floor 1, No. 8, Haidian North 2nd Street, Haidian District, Beijing Municipality	010-82012999	100080	010-59718591
	Guanyuan Sub-Branch	Shop 5, Building 1, Yard 9, Chegongzhuang Street, Xicheng District, Beijing Municipality (Desheng Technology Park)	010-85251177	100044	010-85251177-8877
	Wukesong Sub-Branch	Building 3, No. 69, Fuxing Road, Haidian District, Beijing Municipality	010-88199777	100038	010-88199292

## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Shunyi Sub-Branch	No. F1-57, 58 & F2-40b, Building 1, Yard 8, Xinchun South Street, Renhe Town, Shunyi District, Beijing Municipality (Hualian Commercial Building)	010-85886222	101300	010-6142808
	Daxing Sub-Branch	No. 26, Section 3, Xingye Street, Daxing District, Beijing Municipality	010-65820066	102600	010-69267611
	Shijingshan Sub-Branch	Room 107, Floor 1, Building 2, Yunquan Xili Zone 1, Shijingshan District, Beijing Municipality	010-68636855	100040	010-68636875
	Wangjing Sub-Branch	No. 216-220, Floor 2, Building 8, District 4 of Wangjing Dongyuan, Chaoyang District, Beijing Municipality	010-64391577	100102	010-64391577
Shanghai Municipality	Shanghai Branch	Room 102, 103, 202, No. 1452, Hongqiao Road, Changning District, Shanghai Municipality	021-33316501	200336	021-33316501
	Putuo Sub-Branch	Room A8005-A8006, Floor 1, No. 1108, Zhenbei Road, Putuo District, Shanghai Municipality	021-60290531	200333	021-60290526
	Pudong Sub-Branch	No. 968, Pudong Avenue, Pudong New Area, Shanghai Municipality	021-60191705	201600	021-60191705
	Songjiang Sub-Branch	Lane 1855, Sixian Road, Songjiang District, Shanghai Municipality	021-67828575	200120	021-67827393
	Changning Anlong Sub-Branch	No. 759, Anlong Road, Changning District, Shanghai Municipality	021-60791288	200336	021-60791278
	Xuhui Sub-Branch	Shop 107/108, Floor 1 & Shop 210/209, Floor 2, No. 75, Tianlin East Road, Xuhui District, Shanghai Municipality	021-61270576	200235	021-61270589
	Huangpu Sub-Branch	Unit 02, Floor 1, No. 689, Guangdong Road, Huangpu District, Shanghai Municipality	021-33316501	200001	021-63606217
	Yangpu Sub-Branch	No. 166, 168, 170, Guoquan East Road, Yangpu District, Shanghai Municipality	021-55960686	200082	021-55960617
Tianjin City	Tianjin Branch	Shopping Centre of Building 1, Wanshun Hot Spring Garden, Huangpu South Road, Hexi District, Tianjin City	022-28379999	300201	022-28136100
	Huayuan Sub-Branch	No. 150-04, Yingshui Avenue, Nankai District, Tianjin City	022-58815628	300384	022-58815639
	Binhai Sub-Branch	No. 21-18, 2nd Street, Tianjin Development Zone	022-59835160	300457	022-59835163
	Beichen Sub-Branch	Unit 101, Building 4, Beichen Tower, Beichen District, Tianjin City	022-58687610	300402	022-58833920
	Xiqing Sub-Branch	No. 12-22, Jinfeng Road, Xiqing District, Tianjin City	022-58335695	300385	022-58335699
	Hedong Sub-Branch	No. 1 & 2, Floor 1, No. 70, Huachang Road, Hedong District, Tianjin City	022-24410278	300151	022-24410278

## LIST OF BRANCHES (CONTINUED)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Hebei Sub-Branch	No. 20, Wangchuanchang 5th Road, Hebei District, Tianjin City	022-58885918	300150	022-58885924
	Heping Sub-Branch	No. 5, Xikang Road, Building 1 & 2, Hekang Mingdi, Heping District, Tianjin City	022-59956312	300051	022-59956309
	Dongli Sub-Branch	Room 3-110, Guangfu Business Center, Dongli District, Tianjin City	022-84965926	300301	022-84965919
	Jingtian Apartment Small and Micro Sub-Branch	Zone 5-5-101A, Jingtian Apartment, Jiarongli Street, Beichen District, Tianjin City	022-86690930	300402	022-86690931
	Xilaida Small and Micro Sub-Branch	No. 22-2, Zilu North Road, Wang Village, Dasi Town, Xiqing District, Tianjin City	022-83904179	300381	022-83904198
Changchun City	Changchun Branch	No. 61, Gongnong Avenue, Chaoyang District, Changchun City, Jilin Province	0431-81958888	130000	0431-81958888
	Dongsheng Sub-Branch	No. 1999, Jilin Avenue, Erdao District, Changchun City	0431-81970386	130000	0431-81970386
	Xiangyun Sub-Branch	No. 1438, Xiangyun Street, Lvyan District, Changchun City	0431-89828555	130000	0431-89828555
	Xi'an Avenue Sub-Branch	No. 8, Xi'an Avenue, Chaoyang District, Changchun City	0431-89297707	130000	0431-89297707
	Nanhu Avenue Sub-Branch	No. 1999, Nanhu Avenue, Nangan District, Changchun City	0431-81901267	130000	0431-81901267
	Changchun Quan Lou Small and Micro Sub-Branch	No. 18, Chongqing Hutong, Nangan District, Changchun City, Jilin Province	0431-89305466	130000	0431-89305466
	Changchun Ziyou Avenue Sub-Branch	No. 1008, Ziyou Avenue, Chaoyang District, Changchun City, Jilin Province	0431-82008660	130000	0431-82008660
	Changchun Jilin City Sub-Branch	No. 2, Songjiang Central Road, Jilin City, Jilin Province	0432-62673888	132000	0432-62673888
	Changchun Yongchun Sub-Branch	No. 88, 4th Road, Nangan District, Changchun City, Jilin Province	0431-28008676	130000	0431-28008676
	Changchun Jingyang Sub-Branch	No. 3288, Jingyang Avenue, Changchun City, Jilin Province	0431-82008699	130000	0431-82008699
Specialised institutions	Credit Card Center	No. 109, North Station Road, Shenhe District, Shenyang City	024-83256867	110013	024-83256867
	Capital Operation Center	No. 15, Baogong South Street, Tiexi District, Shenyang City	2359555-2462	110013	2359555-2462
	Small Business Financial Service Center	No. 60, Fengyang Road, Sujiatun District, Shenyang City	2359555-8956	110013	2359555-8956



## DEFINITION

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

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“A Share(s)”	ordinary share(s) proposed to be issued by the Bank and subscribed for in Renminbi, which will be listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange and traded in Renminbi
“Bank”, “Shengjing Bank”, or “We”	Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), a joint stock limited company incorporated in the PRC on 10 September 1997 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBRC”	China Banking Regulatory Commission
“CBRC Liaoning Bureau”	China Banking Regulatory Commission Liaoning Bureau
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas-listed shares in the share capital of our Bank, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	Hong Kong 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

## DEFINITION (CONTINUED)

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“Latest Practicable Date”	9 April 2018, being the latest practicable date prior to the printing of this report for the purpose of ascertaining certain information contained in this report
“Listing Date”	29 December 2014, the date on which dealings in the H Shares first commenced on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the PRC
“PBOC” or “Central Bank”	the People’s Bank of China
“PRC”	the People’s Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau 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 amended from time to time
“Shareholder(s)”	the shareholder(s) of the Bank
“Shares”	the Domestic Shares and the H Shares
“Shenyang Hengxin”	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司, formerly known as 瀋陽恒信國有資產經營有限公司), a company incorporated in the PRC on 10 April 2002, which held approximately 8.28% of the total issued share capital of the Bank as at the Latest Practicable Date
“State Council”	the State Council of the PRC
“Supervisor(s)”	the supervisor(s) of the Bank

