



广州农商银行

GUANGZHOU RURAL COMMERCIAL BANK

廣州農村商業銀行股份有限公司
Guangzhou Rural Commercial Bank Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code: 1551

2017

ANNUAL REPORT





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Company Profile

I. COMPANY PROFILE

(I) Official Name

1. Official Chinese Name: 廣州農村商業銀行股份有限公司
(Abbreviated as “廣州農村商業銀行”)
2. Official English Name: Guangzhou Rural Commercial Bank Co., Ltd.
(Abbreviated as “GRCB”)

(II) Registered Capital: RMB9,808,268,539.00

(III) Legal Representative: Wang Jikang

(IV) Authorized Representatives: Mr. Wang Jikang and Ms. Ko Nga Kit

(V) Joint Company Secretaries: Ms. Zheng Ying and Ms. Ko Nga Kit

(VI) H-Share Listing Stock Exchange: The Stock Exchange of Hong Kong Limited

(VII) Stock Name and Code: GRCB (1551.HK)

(VIII) Registered Office Address: No. 9 Yingri Road, Huangpu District, Guangzhou, PRC

(IX) Principal Place of Business in Hong Kong: 18F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong

(X) Scope of Business: Monetary and financial services

(XI) Contact Address: No. 1 Huaxia Road, Pearl River New Town, Tianhe District, Guangzhou, Guangdong Province, PRC
Postal Code: 510623
Website: www.grcbank.com

(XII) Place of Inspection of the Annual Report: Office of the Board of Directors of the Bank

(XIII) Auditor: Ernst & Young

(XIV) Legal Advisor as to the PRC Law: Geenen Law Firm

(XV) Legal Advisor as to the Hong Kong Law: King & Wood Mallesons

(XVI) Compliance Advisor: China International Capital Corporation Hong Kong Securities Limited

(XVII) H Share Registrar: Computershare Hong Kong Investor Services Limited

(XVIII) Domestic Shares Depository: China Securities Depository and Clearing Corporation Limited

(XIX) Other Relevant Information of the Company

Date of Registration: December 9, 2009

Registration Authority: Guangzhou Administration for Industry and Commerce

Unified Social Credit Code: 914401017083429628

Financial License Registration No.: B1048H244010001

Customer Service and Complaint Telephone No.: 95313

Email Address: ir @grcbank.com

II. BRANCHES AND SUBSIDIARIES

(I) Branches

The following table sets forth the basic information of the branches of the Bank:

No.	Name of branch	Business address	Postal code	Contact telephone number	Remarks
1	Baiyun Sub-branch	1/F to 3/F, No. 466-472 Hunagshi West Road, Baiyun District, Guangzhou	510425	020-86295397	
2	Haizhu Sub-branch	2/F, No. 173-1 Changgang Middle Road, Haizhu District, Guangzhou	510250	020-84278819	
3	Liwan Sub-branch	No. 89 Huadi Avenue Central, Liwan District, Guangzhou	510380	020-81615712	
4	Tianhe Sub-branch	1/F to 2/F, No. 335 Longkou West Road, Tianhe District, Guangzhou	510635	020-38478002	
5	Huangpu Sub-branch	No. 138 Fengle North Road, Huangpu District, Guangzhou	510700	020-82386818	
6	Huadu Sub-branch	South Tower, No. 21 Gongyi Road, Xinhua Subdistrict, Huadu District, Guangzhou	510800	020-36911004	
7	Conghua Sub-branch	No. 98 Hebin North Road, Chengjiao Subdistrict, Conghua District	510900	020-87999021	
8	Panyu Sub-branch	No. 239 Qinghe East Road, Shiqiao Subdistrict, Panyu District, Guangzhou	511400	020-34613991	
9	Nansha Sub-branch	2/F, No. 2 Jixiang Road, Dongchong Town, Panyu District, Guangzhou	511453	020-34929298	
10	Huanan Xincheng Sub-branch	East Side of Tangxi, Village Entrance, Yingbin Road South, Tangbuxi Village, Nancun Town, Panyu District, Guangzhou	511442	020-34693683	
11	Zengcheng Sub-branch	2/F, No. 19 Lixiang Road, Licheng Subdistrict, Zengcheng District, Guangzhou	511300	020-82649826	
12	Airport Economic Zone Sub-branch	Renhe Village, Renhe Town, Baiyun District, Guangzhou	510470	020-86451956	
13	Free Trade Zone Nansha Branch	No. 56 Xinxing Road, Wanqingsha Town, Nansha District, Guangzhou	510000	020-22382877	
14	Heyuan Branch	Room 101, 102, 103 and 104 of Block A and Room 105 and 106 of Block B, Lige Yayuan, Dongyuan Avenue, Dongyuan County, Heyuan	517000	0762-8808209	Branch outside Guangzhou
15	Qingyuan Branch	Shop on 1/F to 3/F, Block 1, Oriental Paris, No. 5 Fengxiang Avenue, Qingcheng District, Qingyuan	511500	0763-3910555	Branch outside Guangzhou
16	Zhaoqing Branch	Shop 01 on 1/F and Shops 01-07 on 2/F, Cultural Innovation Building, No. 5 Yuelong North Road, Ruizhou District, Zhaoqing	526040	0758-2812835	Branch outside Guangzhou
17	Foshan Branch	Room 103 and 104 on 1/F and Room 202 on 2/F of Tower 1, Room 1603 to 1605 on 16/F and Room 1701 to 1708 on 17/F of Block 2, Tower 1, No. 26 Jihua First Road, Chancheng District, Foshan	528000	0757-82581028	Branch outside Guangzhou
18	Guangdong Free Trade Zone Hengqin Branch	B6-B10 Penguin Hotel Commercial Street, Chimelong Tourist Resort, Hengqin District, Zhuhai	519031	0756-2993600	Branch outside Guangzhou

Company Profile

(II) Subsidiaries

The following table sets forth the basic information of the subsidiaries of the Bank:

No.	Company name	Registered address	Postal code	Contact telephone number	Remarks
1	Dongguan Huangjiang Zhujiang County Bank Co., Ltd.	No. Yuanwuwei Road, Yuanwuwei Village, Huangjiang Town, Dongguan	523756	0769-82183199	
2	Shenzhen Pingshan Zhujiang County Bank Co., Ltd.	15A, Pingshan Investment Building, No. 246 Shenshan Road, Pingshan District, Shenzhen	518118	0755-32832902	
3	Suzhou Wuzhong Zhujiang County Bank Co., Ltd.	No. 51 Jinshan South Road, Mudu Town, Wuzhong District, Suzhou, Jiangsu Province	215100	0512-80969696	
4	Qingdao Chengyang Zhujiang County Bank Co., Ltd.	No. 160-12 Zhengyang Middle Road, Chengyang District, Qingdao, Shandong Province	266109	0532-67762806	
5	Jiangsu Qidong Zhujiang County Bank Co., Ltd.	No. 605, 609 and 617 Jianghai Middle Road, Huilong Town, Qidong	226200	0513-83904316	
6	Laiwu Zhujiang County Bank Co., Ltd.	Yanjie Building, No. 19 Daihuayuan, Longtan East Street, Laiwu	271100	0634-5662720	
7	Xinyang Zhujiang County Bank Co., Ltd.	Block 10, Intersection of Guangchang Road and Tongyi Road, Shihe District, Xinyang, Henan Province	464000	0376-6766222	
8	Zhongshan Dongfeng Zhujiang County Bank Co., Ltd.	No. 63, Donghai Second Road, Dongfeng Town, Zhongshan	528425	0760-22787010	
9	Huixian Zhujiang County Bank Co., Ltd.	East Section of Gongcheng Avenue, Huixian	453600	03736223005	
10	Pengshan Zhujiang County Bank Co., Ltd.	No. 223, Caishan East Road, Pengshan District, Meishan, Sichuan Province	620860	028-37666086	
11	Xingning Zhujiang County Bank Co., Ltd.	No. 2 Shuguang Road, Xingning, Meizhou	514500	0753-8682651	
12	Jiangsu Xuyi Zhujiang County Bank Co., Ltd.	Podium of Telecommunication Building, No. 1 Jinyuan North Road, Xuyi County, Huai'an, Jiangsu Province	211700	0517-88558206	
13	Dalian Bonded Area Zhujiang County Bank Co., Ltd.	Zone 3 on 1/F and Zone 2 on 8/F, Block E, International Trade Center, No. 205 Huanghaixi Fourth Road, Dalian Bonded Area	116600	0411-66771959	
14	Beijing Mentougou Zhujiang County Bank Co., Ltd.	No. 8 Shilong South Road, Yongding Town, Mentougou District, Beijing	102300	010-60865137	
15	Heshan Zhujiang County Bank Co., Ltd.	No. 189-193 (odd numbers only) Zhongshan Road, Shaping Town, Heshan	529700	0750-8818081	
16	Sanshui Zhujiang County Bank Co., Ltd.	Shops 103, 104 and 105 and 2/F and 3/F, No. 9 Nanfeng Avenue, Yundonghai Subdistrict, Sanshui District, Foshan	528100	0757-87791698	
17	Haiyang Zhujiang County Bank Co., Ltd.	No. 181 Haiyang Road, Haiyang, Yantai, Shantong Province	265100	0535-3107730	
18	Laizhou Zhujiang County Bank Co., Ltd.	No. 672 Wenhua East Street, Laizhou, Shandong Province	261400	0535-2750000	
19	Jizhou Zhujiang County Bank Co., Ltd.	No. 33 Yangming West Road, Jizhou District, Ji'an, Jiangxi Province	343000	0796-2066666	
20	Anyang Zhujiang County Bank Co., Ltd.	Northeast Corner of the intersection of Wenfeng Avenue and Chaoyang Road, Anyang	455000	0372-2223000	
21	Changning Zhujiang County Bank Co., Ltd.	No. 101 and 102 Qunying West Road, Changning, Hunan Province	421500	0734-2867002	
22	Guanghan Zhujiang County Bank Co., Ltd.	No. 188 Section 1 of Zhongshan Avenue, Guanghan, Sichuan Province	618300	0838-5513187	

No.	Company name	Registered address	Postal code	Contact telephone number	Remarks
23	Xinjin Zhujiang County Bank Co., Ltd.	No. 4-4, 1/F of No. 5 and New No. 6 Wujin West Road, Xinjin County, Chengdu	611430	028-82580021	
24	Yantai Fushan Zhujiang County Bank Co., Ltd.	Former Address: No. 49 Yong'an Street, Fushan District, Yantai, Shandong Province; Current Address: No. 133-216 Fuhai Road, Fushan District, Yantai, Shandong Province, subject to change of relevant information in the business license.	265500	0535-6319002	
25	Zhujiang Financial Leasing Co., Ltd.	Room 1101-J28, 11/F, Financial Building, No. 171 Haibin Road, Nansha District, Guangzhou	511458	020-29168101	
26	Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd.	No. 6 Xiangyang North Road, Lukou Town, Zhuzhou, Hunan Province	412100	0731-27618647	

III. MAJOR HONORS RECEIVED IN 2017

No.	Honors	Awarding/granting authority	Obtaining time
1	Outstanding Dealer in Interbank Domestic Currency Market in 2016 (2016年度銀行間本幣市場優秀交易商)	China Foreign Exchange Trading System	March, 2017
2	Ranked 73 rd in terms of assets and 89 th in terms of overall strength in the list of the "Top 500 Asian Banks in 2016" (「2016亞洲銀行500強」)	The Asian Banker magazine	April, 2017
3	Third Prize of the 9 th Guangdong Finance and Technology Advancement Awards (第九屆廣東金融科學技術進步獎三等獎)	Guangdong Provincial Finance and Technology Association (廣東省金融科技學會)	June, 2017
4	"Best Financial Innovation Award" of the "2017 China Financial Innovation Awards" (「2017年中國金融創新獎」之「最佳金融創新獎」)	The Chinese Banker, CCTV, Institute of Finance under the Chinese Academy of Social Science, Central University of Finance and Economics	June, 2017
5	Award of Innovation Development Supporter of the Year and Award of Real Economy Supporter of the Year in the 2017 Golden Banyan Awards (2017年金榕獎年度支持創新發展貢獻獎和2017年金榕獎年度支持實體經濟貢獻獎)	The Organizing Committee of International Finance Expo 2017 (2017年金交會組委會), Nanfeng Daily (南方日報) (2017年南方金融峰會)	June, 2017
6	"Best Business Model in China" and "Best Practices of Credit Risk Management in China of the Year" in 2017 (2017年度「中國最佳商業模式」·「中國年度最佳信貸風險技術實施」)	The Asian Banker magazine	August, 2017
7	Ranked 56 th in the list of 2017 Top 500 Enterprises in Guangdong	Guangdong Provincial Enterprise Confederation, Guangdong Provincial Association of Entrepreneurs	August, 2017
8	Ranked 177 th in the list of 2017 Top 500 Service Enterprises in China	China Enterprise Confederation, China Enterprise Directors Association	September, 2017
9	Best Brand of Rural Commercial Bank	The Chinese Banker	September, 2017
10	Award of "2017 Internet Finance Bank with Outstanding Competitiveness" (「2017年卓越競爭力互聯網金融銀行」獎)	China Business Journal	November, 2017
11	Ranked 34 th in the list of "Top 100 Banking Institutions in China"	China Banking Association	November, 2017
12	Rural Commercial Bank of the Year under the "2017 China Financial Value Ranking (CFV)" (「2017第一財經金融價值榜(CFV)」年度農商行)	China Business News	December, 2017
13	Award of Best Interface of Direct Sale Bank in 2017 (2017年最佳直銷銀行交互體驗獎)	13 th Annual Chinese E-Banking Conference (第十三屆中國電子銀行年會)	December, 2017
14	"Best Rural Commercial Bank of the Year" of "2017 China Financial Institutions Gold Medal List — Golden Dragon Awards" (「2017中國金融機構金牌榜·金龍獎」之「年度最佳農商銀行」)	Financial Times	December, 2017

Summary of Financial Data

The financial information of the Group set forth in this annual report is prepared on a consolidated basis in accordance with IFRS and expressed in Renminbi unless otherwise stated.

Item (Expressed in RMB million, unless otherwise stated)	For the year ended December 31,					
	2017	2016	Comparison between 2017 and 2016	2015	2014	2013
Operating results			Rate of Change (%)			
Net interest income	11,694.53	10,670.82	9.59	11,595.89	12,006.10	10,596.82
Net fee and commission income	2,291.39	2,976.39	(23.01)	2,889.61	1,742.29	1,369.29
Operating income	13,478.66	15,239.79	(11.56)	16,213.15	13,858.79	12,138.67
Operating expenses	(5,164.19)	(5,457.19)	(5.37)	(5,773.14)	(5,281.99)	(4,744.97)
Impairment losses on assets	(787.85)	(3,259.75)	(75.83)	(4,010.90)	(1,521.95)	(891.89)
Profit before tax	7,526.62	6,522.85	15.39	6,429.11	7,054.85	6,501.82
Net profit	5,890.99	5,106.35	15.37	5,000.34	5,481.40	4,945.90
Net profit attributable to equity holders of the Bank	5,708.72	5,025.59	13.59	5,001.02	5,374.69	4,827.92
Per share (in RMB)			Change			
Net assets per share attributable to equity holders of the Bank ⁽¹⁾	5.10	4.40	0.71	4.14	3.76	3.22
Basic earnings per share (Expressed in RMB per share)	0.63	0.62	0.01	0.61	0.66	0.59
	For the year ended December 31,					
			Comparison between 2017 and 2016			
Scale indicators						
Total assets	735,713.66	660,951.12	74,762.54	582,807.20	466,607.62	379,488.11
Among which: loans and advances to customers, net	285,701.70	237,934.77	47,766.93	216,779.76	180,720.30	156,782.79
Total liabilities	687,235.94	623,111.42	64,124.52	547,111.07	434,020.85	351,721.88
Among which: due to customers	488,671.86	423,742.04	64,929.82	391,061.88	354,438.56	313,359.81
Equity attributable to equity holders of the Bank	46,044.52	35,845.24	10,199.28	33,777.95	30,660.61	26,272.27
Non-controlling interests	2,433.20	1,994.46	438.74	1,918.18	1,926.16	1,493.96
Total equity	48,477.72	37,839.70	10,638.02	35,696.13	32,586.77	27,766.23

Summary of Financial Data

Item (Expressed in percentage)	For the year ended December 31,					
	2017	2016	Comparison between 2017 and 2016	2015	2014	2013
Profitability indicators						
Return on average total assets ⁽²⁾	0.84	0.82	0.02	0.95	1.30	1.36
Return on average equity ⁽³⁾	13.65	13.89	(0.24)	14.65	18.16	18.88
Net interest spread ⁽⁴⁾	1.65	1.99	(0.34)	2.31	2.67	2.86
Net interest margin ⁽⁵⁾	1.70	1.98	(0.28)	2.50	2.91	3.05
Net fee and commission income to operating income ⁽⁶⁾	17.00	19.53	(2.53)	17.82	12.57	11.28
Cost-to-income ratio ⁽⁷⁾	37.11	32.77	4.34	28.37	30.95	31.94
Item (Expressed in percentage)	For the year ended December 31,					
	2017	2016	Comparison between 2017 and 2016	2015	2014	2013
Assets quality indicators						
Non-performing loan ratio ⁽⁸⁾	1.51	1.81	(0.3)	1.8	1.54	0.9
Provision coverage ratio ⁽⁹⁾	186.75	178.58	8.17	170.79	183.37	290.58
Allowance to total loans ⁽¹⁰⁾	2.83	3.24	(0.41)	3.08	2.83	2.62
Capital adequacy indicators						
			Change			
Core Tier 1 capital adequacy ratio ⁽¹¹⁾	10.69	9.90	0.79	10.28	11.16	11.84
Tier 1 capital adequacy ratio	10.72	9.92	0.80	10.29	11.17	11.85
Capital adequacy ratio	12.00	12.16	(0.16)	12.76	14.45	14.36
Other indicators						
Loan-to-deposit ratio ⁽¹²⁾	60.17	58.03	2.14	57.19	52.47	51.38

Notes:

- (1) The net assets per share attributable to equity holders of the Bank is calculated by dividing the net assets of the Bank as at the end of each year by the weighted average number of shares of the Bank in issue from time to time during the year. If the net assets per share attributable to equity holders of the Bank is calculated by dividing the net assets of the Bank by the number of shares of the Bank in issue as at December 31, 2017, the net assets per share attributable to equity holders of the Bank shall be RMB 4.69. The Bank did not issue any shares during the years ended December 31, 2016, 2015, 2014 and 2013.
- (2) Representing the net profit for the period (including profit attributable to non-controlling interests) as a percentage of the average balance of total assets as at the beginning and end of the period.
- (3) Calculated by dividing the net profit for the period by the average balance of total equity as at the beginning and end of the period.
- (4) Net interest spread is calculated as the difference between the average yield rate on total interest-earning assets and the average cost rate on total interest-bearing liabilities.
- (5) As calculated by dividing net interest income by the average daily balance of total interest-earning assets.
- (6) As calculated by dividing net fee and commission income by operating income.
- (7) As calculated by dividing operating expenses (excluding tax and surcharges) by operating income.
- (8) As calculated by dividing the balance of non-performing loans by the total loans and advances to customers.
- (9) As calculated by dividing the balance of allowance for loan losses by the balance of non-performing loans.
- (10) As calculated by dividing the balance of allowance for loan losses by the total loans and advances to customers.
- (11) Calculated in accordance with the "Administrative Measures for the Capital of Commercial Banks (Provisional)" promulgated by CBRC.
Core Tier 1 capital adequacy ratio = (core Tier 1 capital – reductions from respective capital)/risk-weighted assets *100%
Tier 1 capital adequacy ratio = (Tier 1 capital – reductions from respective capital)/risk-weighted assets *100%.
Capital adequacy ratio = (total capital – reductions from respective capital)/risk-weighted assets *100%.
- (12) As calculated by dividing total loans and advances to customers by total deposits of customers.

Chairman's Statement

A well-known search engine released the most searched-for word for 2017: "How". The word "how" has also become the doubt deep down for all banking institutions in 2017: How to provide services under the impact of new technologies, new formats, new models, and new regulations? The question of "how" reflects the anxiety of banking institutions in the turbulent market and the risk of subversion and reshuffling, and at the same time expects them to respond to the impact of self-renovation and grasp the opportunity to win in the future. In the torture of anxiety and expectations, Guangzhou Rural Commercial Bank celebrated its eighth birthday. Over the past eight years, we have had a profound understanding of the ups and downs of the market. We have intuitively comprehended rebirth in the crisis, and have witnessed some meteors that came and went in the blink of an eye. We also experienced the miracle that faith would move mountains. Eight years of introspection and experience have taught us that there is no optimal answer to the question of "how". Only by insisting on the logic of the market and the value-oriented search can we make a difference in the great changes of the times.

Because of this, we firmly promoted the listing of H shares and became the first local bank in Guangdong to be listed. We have fully accepted the test of the international capital market, and the Bank won the Most Welcomed Newly Listed Company in 2017 in the Golden Hong Kong Shares Ceremony. These were the best recognitions of the value of our investment. We firmly promote comprehensive operations and steadily implement the strategies of large retailing, large investment banking, large-scale investment management, and large-scale industry cooperation. We worked together with Tencent Financial Cloud to create financial science and technology innovation labs and worked together with DDCXcars to create a smart transportation ecosystem. We won the awards of "China Best Business Model of the Year in China", "The Most Promising Retail Bank", and "The Investment Bank Jun Ding Award for Rural Commercial Banks". We ranked the first in the comprehensive financial management capacity issued by PY Standard among all rural commercial banks of the country. These were the best recognitions of the value of our services. We firmly promoted the construction of platforms, implemented the linkage between banks and linkage between banks and renters to realize the identical services either online or offline, either local or non-local. We provided a model of a cross-provincial holding company for rural banks and were awarded "The Best Direct Banking Interactive Experience Award". These were the best recognitions of the value of our platform. We firmly carried forward the management reforms to adjust and pare down the cadre crews with unprecedented determination and efforts. We recognized contributors and discharge slackers by clarifying organizing boundaries, economic boundaries, and performance boundaries. In this way, those who truly have valuable contributions can obtain higher benefits and better development and the staff enjoyed the pride and happiness. These were the best recognition of our management value. We were firmly committed to social responsibility, inclusive finance, green finance, and precision poverty alleviation. We have extended the connotation and denotation of the Neo Sun Foundation continuously, bringing more hope. These were the best recognition of our social values.

As the clock ticks towards 2018, chaos and variability are still the unchanging themes. The question of "how" will continue to test us and enlighten us. Acting actively while being selective, embracing innovations while remaining true to our original aspiration, these are the keys to our success now and also our declaration for the future. There is no optimal answer, yet we are approaching it unceasingly.

We sincerely thank all shareholders, customers, friends from all walks of life for their long-term concern and support. We will pursue our ambitions without distraction to reward shareholders with better performance and give back to the community.

President's Statement

In 2017, our great country continued to forge ahead; the CPC's Nineteenth Congress was successfully held. The reforms on supply-side, the construction of the One Belt One Road Initiative, poverty alleviation, and environmental remediation and other works substantially provoked unlimited room for improvement in economic and social development. In this year, Guangzhou Rural Commercial Bank sized up the situation, seized the momentum, adhered to the Party's Leadership and strengthened the Party's construction work, adhered to market logic, advocated the spirit of struggling, strived to seek high-quality development, better maintained sound operation and better completed the annual business objectives.

In this year, Guangzhou Rural Commercial Bank made great achievements in its operation and management work. As at the end of the year, the total assets of the Group amounted to RMB735.7 billion. The balance of various deposit reached RMB488.7 billion, with various loan balances reaching RMB294.0 billion, the net profit for the year amounted to RMB5.89 billion. As at the end of the year, non-performing loan ratio was 1.51%, and provision coverage was 186.75%. All regulatory indicators met regulatory requirements. In 2017, the Bank was selected again as one of the 1000 largest banks in the world and the top 50 Asian banks. Its comprehensive operating strength reached a new level.

In this year, Guangzhou Rural Commercial Bank was successfully listed on the Hong Kong Stock Exchange, and becomes the first listed local bank in Guangdong Province, as well as the third listed rural commercial bank in China. Upon listing, its stock price had been stable. The Bank won the Most Welcomed Newly Listed Company by Investors in 2017 in the Golden Hong Kong Shares Ceremony, gaining market recognition.

In this year, Guangzhou Rural Commercial Bank deepen its transformation, upgrade, and innovation of reform, and its financial service capabilities and refined management levels continued to increase. The Bank implementing the absolute collection special action for the non-performing assets, significantly improving the quality of assets, launching the carbon mortgage loan, cross-border financing link, winners business circle, debit card "Flower City Card" with the theme of Guangzhou-styled image and the comprehensive asset custody business of "Trusteeship with Happiness", integrated online service with financial scenarios and other new product, services, and modes. The Bank launched a directing risk management system, established the employee-targeted behavior management system, implemented bank-wide electronic visualization program, optimized performance management system and other internal management reform measures. The Bank had entered into a strategic cooperation relationship with giants of internet finance, such as Tencent Technology and Vipshop to set up Zhuzhou Zhujiang Rural Commercial Bank, which is the first cross-provincial holding company in Hunan Province.

In 2018, the management team of the Guangzhou Rural Commercial Bank will study and implement the spirit of the Nineteenth Congress, conscientiously implement the work arrangement of the Party Committee and the Board of the Head Office, vigilantly and prudently take initiative to adapt to enormous changes in the external operating environment, and unswervingly strengthen the Party's leadership and the building work of the Party. The Bank will focus on the main businesses and steadfastly pursue its compliance with laws and regulations, attach much greater importance to comprehensive risk management of compliance, continue to promote transformation and upgrading of the Bank and high-quality development in accordance with the logic of the market. The Bank will strive to keep its good operating results in a new era under the new situation. Regarding the annual business objectives, the Bank emphasizes on reasonable growth of profit and continuous improvement in assets quality, concentrating on five aspects of task: firstly, comprehensive strengthening the management of asset-liability, optimizing asset-liability structure, and improving net interest spreads; secondly, paying attention to the development of major businesses, including: low-cost liability business, inclusive finance and small-and-micro retail customers credit business, supporting the credit business, village community business, deposit and others which coordinated the reforms on the supply side and rejuvenated the rural strategy and brought better comprehensive revenue; thirdly, optimizing the risk management system and procedures, enhancing the effort of the accountability system; continuing to deepen the reforms on innovations and promotion of transformation and upgrading; making greater efforts at technology application and business linkages, establishing the business development mode of the management models with low-capital consumption and low-cost investment and simple and effective management mode of the organizations; fifthly, creating a positive, enterprising, pragmatic and positive value orientation and corporate culture and enhancing employees' sense of identity and sense of belonging.

Facing 2018 and the future, we are deeply impressed by the fact that the Party and our country's various undertakings will surely bring broad prospects and will definitely bring vitality to the banking industry, especially to such rural commercial bank like us. We are also aware that the new development concepts of the Party and our country, their work arrangements including precautions against risks disposal, and the strong and strict regulatory policies that have become the norm, set new standards and requirements for the banking industry. These bring severe challenges and enormous pressure. Guangzhou Rural Commercial Bank will live up to the good times, be brave while facing the challenge of changes in environment. During the year when the 19th National Congress has been successfully held and during the first accounting year when the Hong Kong shares of the Bank have been listed, we will continue to step forward joyfully and write a new chapter of entrepreneurship with the spirit of profession, dedication, struggling and enterprising, and innovation.

Management Discussion and Analysis

ENVIRONMENT AND OUTLOOK

In 2017, major economies of the world experienced a synchronous recovery and their economic performances were the best since 2011. The U.S. economy was generally stable, and the endogenous recovery momentum was more abundant; the European economy was recovering steadily and political risks have eased; the Japanese economy has achieved modest growth and the monetary policy has maintained a loose tone; the overall recovery of emerging economies has accelerated, but the trend of differentiation would continue. In 2017, China's economy opened up to a prospect of recovery and structure improvement. The economic growth, which was 6.9%, rose for the first time in the past seven years. The Chinese economy has gradually become the stabilizer and ballast for world economic growth. The development of the domestic new economy was booming, and the trend of consumption upgrade was obvious. The proportion of the three industries was more coordinated and the international balance of payments was more balanced. The business environment continued to improve, and the process of economic restructuring and optimization was accelerated. In 2017, Guangdong Province insisted on taking the new development concept to lead the new normal of economic development, unswervingly pushed forward the structural reform on the supply side, and further implemented the innovation-driven development strategy. The comprehensive strength of the province has reached a historic new level. The gross regional production (GDP) of the province was RMB8.99 trillion, accounting for 10.5% of the country's total and ranking first in the country for 29 consecutive years. It got an average annual increase of 7.9% for the past five years. The GDP of Guangzhou in 2017 was RMB2.15 trillion, representing an increase of more than 7% over the previous year, and the regional GDP per capita exceeded RMB150,000. Looking ahead to 2018, the global economic recovery is expected to continue. The monetary policies of major central banks continue to show differentiations. The Chinese economy will enter a stage of high quality development and is expected to maintain stable growth.

In 2017, the Bank's overall operations continued to improve, the scale of assets was steadily increasing; the profitability was smoothly developing; the quality of assets was good and steady; and the balance of benefits and quality was achieved. In 2018, the Bank will continue to deepen reforms, firmly promote transformation and upgrading, and adopt proactive measures to prevent risks and stabilize growth. The Bank will adhere to the strategic positioning and direction determined by the Board of Directors, adhere to stable, innovative and efficient operation, and insist on servicing for real economy and compliance management. We will make persistent efforts to optimize management, improve the level of connotation development, achieve high-quality growth, and strive to create a new phase of transformation and development.

FINANCIAL REVIEW

I. INCOME STATEMENT ANALYSIS

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31,		Change in amount	Rate of Change (%)
	2017	2016		
Interest income	29,186.45	23,385.52	5,800.93	24.81
Interest expense	(17,491.92)	(12,714.70)	(4,777.22)	37.57
Net interest income	11,694.53	10,670.82	1,023.71	9.59
Fee and commission income	2,568.56	3,192.64	(624.08)	(19.55)
Fee and commission expense	(277.17)	(216.25)	(60.92)	28.17
Net fee and commission income	2,291.39	2,976.39	(685.00)	(23.01)
Net trading income	1,299.40	986.40	313.00	31.73
Net gains or losses on financial investments	(1,639.02)	450.81	(2,089.83)	(463.57)
Other operating income, net	(167.64)	155.37	(323.01)	(207.90)
Operating income	13,478.66	15,239.79	(1,761.13)	(11.56)
Operating expenses	(5,164.19)	(5,457.19)	293.00	(5.37)
Impairment losses on assets	(787.85)	(3,259.75)	2,471.90	(75.83)
Loans and advances	(631.10)	(3,693.69)	3,062.59	(82.91)
Others	(156.75)	433.94	(590.69)	(136.12)
Profit before tax	7,526.62	6,522.85	1,003.77	15.39
Income tax expense	(1,635.63)	(1,416.50)	(219.13)	15.47
Net profit	5,890.99	5,106.35	784.64	15.37

In 2017, the Group recorded a profit before tax of RMB7,527 million, representing a year-on-year increase of 15.39% and a net profit of RMB5,891 million, representing a year-on-year increase of 15.37%. Profit before tax and net profit achieved steady growth, primarily due to the steady increase in net interest income in line with the growing asset size, and a significant decrease in impairment losses on assets benefiting from the enhanced risk management on credit assets and greater efforts on clearing up and disposal of non-performing assets.

(I) Net Interest Income

In 2017, the net interest income of the Group amounted to RMB11,695 million, representing a year-on-year increase of RMB1,024 million, or 9.59%, and accounting for 86.76% of the total operating income. The steady growth of net interest income was primarily due to the increase in asset size.

The following table sets forth interest income, interest expense and net interest income of the Group for the period indicated:

(Expressed in RMB million, unless otherwise stated)	For the year ended	For the year ended	Change in amount	Rate of Change (%)
	December 31, 2017	December 31, 2016		
Interest income	29,186.45	23,385.52	5,800.93	24.81
Interest expense	(17,491.92)	(12,714.70)	(4,777.22)	37.57
Net interest income	11,694.53	10,670.82	1,023.71	9.59

Management Discussion and Analysis

(Expressed in RMB million, unless otherwise stated)	For the twelve months ended December 31, 2017			For the twelve months ended December 31, 2016		
	Average balance	Interest income/ expense	Annualized average yield/cost rate (%)	Average balance	Interest income/ expense	Annualized average yield/cost rate (%)
Loans and advances to customers	275,901.53	14,955.91	5.42	248,165.05	13,502.10	5.44
Available-for-sale financial assets	137,192.31	5,646.81	4.11	89,201.42	3,422.62	3.84
Held-to-maturity investments	31,298.07	1,127.44	3.60	14,787.43	615.35	4.16
Debt securities classified as receivables	89,446.28	3,545.12	3.96	72,259.21	3,151.46	4.36
Deposits and placements with banks and other financial institutions	28,287.24	828.68	2.92	23,110.67	870.41	3.77
Financial assets held under resale agreements	54,718.17	2,000.64	3.66	32,376.21	894.70	2.76
Deposits with central bank	71,504.51	1,081.85	1.51	60,341.92	928.88	1.54
Total interest-earning assets	688,348.10	29,186.45	4.24	540,241.90	23,385.52	4.33
Due to customers	449,125.56	8,611.98	1.92	388,466.25	7,806.37	2.01
Placements and deposits from banks and other financial institutions	77,557.70	2,810.24	3.62	66,776.92	2,071.89	3.10
Financial assets sold under repurchase agreements	24,417.26	669.88	2.74	19,836.96	451.39	2.28
Debt securities issued	124,470.32	5,378.13	4.32	68,567.37	2,361.43	3.44
Borrowing from central bank	794.68	21.69	2.73	815.71	23.62	2.90
Total interest-bearing liabilities	676,365.52	17,491.92	2.59	544,463.21	12,714.70	2.34
Net interest income		11,694.53			10,670.82	
Net interest spread			1.65			1.99
Net interest margin			1.70			1.98

In 2017, compared with the corresponding period of last year, the overall average return on interest-earning assets decreased by 9 basis points to 4.24%, the overall average cost rate of interest-bearing liabilities increased by 25 basis points to 2.59%, net interest spread decreased by 34 basis points to 1.65%, and net interest margin decreased by 28 basis points to 1.70%.

Management Discussion and Analysis

The following table sets forth changes in the Group's interest income and interest expense as compared to the corresponding period of last year due to changes in volume and interest rate. Changes in volume are measured by movement of the average balance, while changes in interest rate are measured by the movement of the average interest rate:

(Expressed in RMB million, unless otherwise stated)	Increase/(decrease) due to changes in the following item		Net increase/ decrease
	Volume factor	Rate factor	
Assets			
Loans and advances to customers	1,509.08	(55.27)	1,453.81
Available-for-sale financial assets	1,841.39	353.20	2,194.59
Held-to-maturity investments	687.06	(174.97)	512.09
Debt securities classified as receivables	749.58	(355.92)	393.66
Deposits and placements with banks and other financial institutions	194.96	(207.09)	(12.13)
Financial assets held under resale agreements	617.41	488.53	1,105.94
Deposits with central bank	171.83	(18.86)	152.97
Changes in interest income	5,771.31	29.62	5,800.93
Liabilities			
Due to customers	1,218.97	(413.36)	805.61
Placements and deposits from banks and other financial institutions	334.50	403.85	738.35
Financial assets sold under repurchase agreements	104.22	114.27	218.49
Debt securities issued	1,925.27	1,091.43	3,016.70
Borrowing from central bank	(0.61)	(1.32)	(1.93)
Changes in interest expense	3,582.35	1,194.87	4,777.22

Management Discussion and Analysis

1. Interest income

In 2017, interest income of the Group amounted to RMB29,186 million, representing an increase of RMB5,801 million or 24.81% as compared to the corresponding period of last year.

(1) INTEREST INCOME FROM LOANS AND ADVANCES TO CUSTOMERS

The average balance, interest income and average yield for each component of loans and advances to customers of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the twelve months ended December 31, 2017			For the twelve months ended December 31, 2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	177,299.35	9,842.11	5.55	143,717.27	8,039.80	5.59
Personal loans	87,773.68	4,675.94	5.33	75,863.06	4,449.21	5.86
Discounted bills	10,828.50	437.86	4.04	28,584.72	1,013.09	3.54
Total loans to customers	275,901.53	14,955.91	5.42	248,165.05	13,502.10	5.44

Interest income from loans and advances to customers amounted to RMB14,956 million, representing a year-on-year increase of RMB1,454 million, or 10.77%. While the average return decreased by 2 basis points to 5.42% as compared with last year, mainly due to the fact that the interest on loans was exclusive of tax after the transition from business tax to value-added tax, and an increase in the loans to large enterprises along with the adjustment to loan structure and decrease in small and micro loans at high rates.

(2) INTEREST INCOME FROM AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The average balance, interest income and average yield for each component of amounts due from banks and other financial institutions of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the twelve months ended December 31, 2017			For the twelve months ended December 31, 2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Deposits and placements with banks and other financial institutions	28,287.24	828.68	2.92%	23,110.67	870.41	3.77
Financial assets held under resale agreements	54,718.17	2,000.64	3.66%	32,376.21	894.70	2.76
Total amounts due from banks and other financial institutions	83,005.41	2,829.32	3.40%	55,486.88	1,765.11	3.18

In 2017, the interest income from deposits and placements with banks and other financial institutions of the Group amounted to RMB829 million, representing a year-on-year decrease of RMB42 million, or 4.79%, which was primarily due to the change in interbank asset structure, resulting in an increase in the yield of amount due from banks and other financial institutions.

Management Discussion and Analysis

2. Interest expense

In 2017, the Group's interest expense increased by RMB4,777 million or 37.57% to RMB17,492 million as compared to the corresponding period of last year.

(1) INTEREST EXPENSE ON AMOUNTS DUE TO CUSTOMERS

The average balance, interest expense and average cost rate for each component of amounts due to customers of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the twelve months ended December 31, 2017			For the twelve months ended December 31, 2016		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Corporate deposits						
Demand	93,189.88	475.59	0.51	69,923.22	358.25	0.51
Time	87,796.78	3,005.16	3.42	78,965.18	2,801.20	3.55
Subtotal	180,986.66	3,480.75	1.92	148,888.40	3,159.45	2.12
Personal deposits						
Demand	85,108.95	269.71	0.32	75,098.86	235.33	0.31
Time	120,814.71	3,086.21	2.55	110,784.11	2,885.30	2.60
Subtotal	205,923.66	3,355.92	1.63	185,882.97	3,120.63	1.68
Other deposits	62,215.24	1,775.31	2.85	53,694.88	1,526.29	2.84
Total amounts due to customers	449,125.56	8,611.98	1.92	388,466.25	7,806.37	2.01

In 2017, the Group's interest expense on amounts due to customers amounted to RMB8,612 million, representing a year-on-year increase of RMB806 million, or 10.32%, and the cost rate of deposits was 1.92%, representing a decrease of 9 basis points year-on-year, mainly due to an increase in the average daily proportion of demand deposits with a low cost rate as compared to the corresponding period of last year, resulting in a further optimized deposit structure.

(2) INTEREST EXPENSE ON AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

(Expressed in RMB million, unless otherwise stated)	For the twelve months ended December 31, 2017			For the twelve months ended December 31, 2016		
	Average balance	Interest expense	average cost rate (%)	Average balance	Interest expense	average cost rate (%)
Placements and deposits from banks and other financial institutions	77,557.70	2,810.24	3.62%	66,776.92	2,071.89	3.10
Financial assets sold under repurchase agreements	24,417.26	669.88	2.74%	19,836.96	451.39	2.28
Total amounts due to banks and other financial institutions	101,974.96	3,480.12	3.41%	86,613.88	2,523.28	2.91

In 2017, the Group's interest expense on placements and deposits from banks and other financial institutions amounted to RMB3,480 million, representing a year-on-year increase of RMB957 million, or 37.92%, which was primarily due to the rise of capital price in the interbank market. Interest expense on financial assets sold under repurchase agreements amounted to RMB670 million, representing a year-on-year increase of RMB218 million, or 48.40%, which was primarily due to a rise of capital price in the interbank market.

Management Discussion and Analysis

(II) Non-interest Income

1. Fee and commission income

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2017	For the year ended December 31, 2016	Change in amount	Rate of Change (%)
Fee income from advisory and consulting business	823.18	1,312.50	(489.32)	(37.28)
Fee income from settlement and electronic channel business	126.34	126.08	0.26	(0.20)
Fee income from agency and custodian business	393.99	470.37	(76.38)	(16.24)
Fee income from wealth management products	188.91	320.43	(131.52)	(41.04)
Fee income from bank card business	620.54	546.22	74.32	13.61
Financial leasing fee income	142.18	191.20	(49.02)	(25.64)
Fee income from foreign exchange business	86.02	48.66	37.36	76.78
Others	187.40	177.18	10.22	5.77
Subtotal	2,568.56	3,192.64	(624.08)	(19.55)
Fee and commission expense:				
Fee expense on settlement and electronic channel business	(29.57)	(50.15)	20.58	41.04
Fee expense on bank card business	(66.63)	(43.58)	(23.05)	52.89
Others	(180.97)	(122.52)	(58.45)	47.71
Subtotal	(277.17)	(216.25)	(60.92)	28.17
Net fee and commission income	2,291.39	2,976.39	(685.00)	(23.01)

In 2017, the fee and commission income of the Group amounted to RMB2,291 million, representing a year-on-year decrease of RMB685 million, or 23.01%, and accounting for 17.00% of the total operating income, which was mainly due to a decrease in advisory and consulting fees and financial service charge.

2. Net trading income

In 2017, net trading income of the Group amounted to RMB1,299 million, representing a year-on-year increase of RMB313 million, mainly due to an increase in the scale of financial assets held for trading.

3. Net gain on financial investments

In 2017, the net losses on financial investments of the Group amounted to RMB1,639 million, mainly due to the sustained sluggish bond market and other markets.

4. Other operating income, net

In 2017, the net other operating losses of the Group amounted to RMB168 million, mainly due to exchange losses and the disposal of mortgage assets.

Management Discussion and Analysis

(III) Operating Expenses

In 2017, the operating expenses of the Group decreased by RMB293 million, or 5.37%, to RMB5,164 million as compared to the corresponding period of last year.

The following table sets forth the principal components of operating expenses of the Group for the periods indicated.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2017	For the year ended December 31, 2016	Change in amount	Rate of Change (%)
Staff costs	3,029.86	2,943.79	86.07	2.92
Tax and surcharges	162.77	463.13	(300.36)	(64.85)
Depreciation and amortization	513.97	512.79	1.18	0.23
Others	1,457.59	1,537.48	(79.89)	(5.20)
Total operating expenses	5,164.19	5,457.19	(293.00)	(5.37)

1. Staff costs

Staff costs are the largest component of operating expenses of the Group, accounting for 58.67% and 53.94% of our operating expenses for 2017 and 2016, respectively.

The following table sets forth the principal components of staff costs of the Group for the periods indicated.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2017	For the year ended December 31, 2016	Change in amount	Rate of Change (%)
Salaries, bonuses and allowances	2,031.90	1,858.41	173.49	9.34
Welfare, social insurance and housing provident fund	525.01	572.11	(47.10)	(8.23)
Others	472.95	513.27	(40.32)	(7.86)
Total staff costs	3,029.86	2,943.79	86.07	2.92

In 2017, staff costs of the Group amounted to RMB3,030 million, representing a year-on-year increase of RMB86 million, or 2.92%, which was primarily attributable to an increase in salaries, bonuses and allowances.

Management Discussion and Analysis

2. Tax and surcharges

In 2017, the tax and surcharges incurred amounted to RMB163 million. Pursuant to the provisions of the Ministry of Finance, the original “business tax and surcharges” shall be adjusted to “tax and surcharges” with effect from 2017. Moreover, the value-added tax shall not be charged to this item after the transition from business tax to value-added tax on May 1, 2016. Such adjustment to the basis led to a significant year-on-year decrease in the duties and charges attributed to this item in 2017.

3. Depreciation and amortization

In 2017, depreciation and amortization of the Group was RMB514 million, which remained unchanged compared with previous corresponding period.

4. Others

In 2017, other expenses amounted to RMB1,458 million, representing a year-on-year decrease of RMB79 million, or 5.14%, which was primarily due to a decrease in general and administrative expenses.

(IV) Impairment Losses on Assets

The following table sets forth the principal components of impairment losses on assets of the Group for the periods indicated.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31			Rate of Change (%)
	2017	2016	Change in amount	
impairment losses on loans and advances	631.10	3,693.69	(3,062.59)	(82.91)
Other assets	156.75	(433.93)	590.68	136.12
Total	787.85	3,259.76	(2,471.91)	(75.83)

In 2017, the provisions for impairment losses on assets made by the Group amounted to RMB788 million, representing a year-on-year decrease of RMB2,472 million, or 75.83%. Among which, provisions for impairment losses on loans and advances to customers amounted to RMB631 million, representing a year-on-year decrease of RMB3,063 million, which was primarily due to an improvement in the quality of credit assets. Meanwhile, the collection of certain written-off loans supplemented loan allowances, due to the launching of absolute collection.

(V) Income Tax Expense

In the full year of 2017, income tax expense amounted to RMB1,636 million, representing a year-on-year increase of RMB219 million, mainly due to a significant increase in total profit as compared to the corresponding period of last year. The effective income tax rate was 22%.

II. ANALYSIS ON STATEMENT OF FINANCIAL POSITION

(I) Assets

The following table sets forth the composition of the Group's total assets as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total loans and advances to customers	294,013.27	39.96	245,891.30	37.20
Allowances for impairment losses	(8,311.57)	(1.13)	(7,956.53)	(1.20)
Loans and advances to customers, net	285,701.70	38.83	237,934.77	36.00
Net financial investments	219,698.88	29.86	190,072.92	28.76
Cash and deposits with the central bank	103,767.44	14.10	83,022.94	12.56
Financial assets at fair value through profit or loss	15,270.18	2.08	35,980.38	5.44
Deposits with banks and other financial institutions	14,443.63	1.96	18,380.85	2.78
Placements with banks and other financial institutions	6,606.54	0.90	3,910.82	0.59
Financial assets held under resale agreements	76,393.40	10.38	79,963.09	12.10
Others	13,831.89	1.89	11,685.35	1.77
Total assets	735,713.66	100.00	660,951.12	100.00

Notes:

- (1) Financial investments consist of available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.
- (2) Other assets consist of interest receivables, property and equipment, deferred tax assets, debt assets and accounts receivable and accounts payable.

As at December 31, 2017, the Group's total assets amounted to RMB735,714 million, representing an increase of RMB74,763 million, or 11.31%, as compared to the end of last year.

Among which, the gross amount of loans and advances to customers increased by RMB48,122 million, or 19.57%, as compared to the end of last year. This was primarily due to the fact that China's macro environment stabilized in 2017, and the real economy showed a strong credit demand, which led to a rapid growth in the scale of loans.

Financial Investments increased by RMB29,626 million, or 15.59%, as compared to the end of last year, primarily due to the fact that the Bank actively adjusted investment structure, resulting in a significant increase in held-to-maturity investments.

Cash and deposits with the central bank increased by RMB20,745 million, or 24.99%, as compared to the end of last year, mainly due to the fact that deposits of the Bank increased significantly and provisions of the central bank increased correspondingly.

Gross amount of deposits and placements with banks and other financial institutions decreased by RMB1,242 million, or 5.57%, as compared to the end of last year, primarily due to the fact that the Bank decreased time deposits from banks and other financial institutions.

Financial assets held under resale agreements decreased by RMB3,570 million, or 4.46%, as compared to the end of last year. This was mainly due to the fact that the Bank decreased the allocation of capital on bonds held under resale agreements according to its management measures of liquidity.

Management Discussion and Analysis

1. Loans and advances to customers

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate loans	192,541.48	65.49	152,566.99	62.05
Personal loans	96,252.40	32.74	81,328.24	33.07
Discounted bills	5,219.39	1.77	11,996.07	4.88
Total loans to customers	294,013.27	100.00	245,891.30	100.00

As at December 31, 2017, the gross amount of loans and advances to customers of the Group increased by RMB48,122 million, or 19.57%, to RMB294,013 million as compared to the end of last year.

As compared to the end of last year, the Group's gross amount of corporate loans increased by RMB39,974 million, or 26.20%, to RMB192,541 million; gross amount of personal loans increased by RMB14,924 million, or 18.35%, to RMB96,252 million; and gross amount of discounted bills decreased by RMB6,777 million, or 56.49%, to RMB5,219 million. The increase in the loans of the Group was mainly due to an increase in the demand for loans to customers as China's macro environment stabilized in 2017.

DISTRIBUTION OF LOANS BY PRODUCT TYPE

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total corporate loans	192,541.48	65.49	152,566.99	62.05
Working capital loans	95,708.77	32.56	89,104.23	36.25
Fixed asset loans	84,329.87	28.68	52,528.02	21.36
Lease receivables	12,301.68	4.18	10,633.46	4.32
Others	201.16	0.07	301.28	0.12
Total personal loans	96,252.40	32.74	81,328.24	33.07
Personal mortgage loans	46,828.07	15.93	34,015.81	13.84
Personal business loans	26,356.02	8.96	28,946.52	11.77
Personal consumption loans	15,043.50	5.12	11,936.30	4.85
Balance of credit cards	8,024.81	2.73	6,429.61	2.61
Total discounted bills	5,219.39	1.77	11,996.07	4.88
Bank's acceptance bills	219.15	0.07	7,671.21	3.12
Commercial acceptance bills	5,000.24	1.70	4,324.86	1.76
Total loans to customers	294,013.27	100.00	245,891.30	100.00

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As at December 31, 2017, the Group's working capital loans, fixed asset loans and lease receivables were RMB95,709 million, RMB84,330 million and RMB12,302 million, respectively, representing 49.71%, 43.80% and 6.39% of the total corporate loans, respectively. Among which, working capital loans and fixed asset loans increased by RMB6,605 million and RMB31,802 million, or 7.41% and 60.54%, as compared to the end of last year, respectively, mainly due to an increase in the demand for loans to customers as China's macro environment stabilized this year.

As at December 31, 2017, the Group's personal mortgage loans, personal business loans, personal consumption loans and the balance of credit cards were RMB46,828 million, RMB26,356 million, RMB15,044 million and RMB8,025 million, respectively, representing 48.65%, 27.38%, 15.63% and 8.34% of total personal loans, respectively. Among which, personal mortgage loans, personal consumption loans and the balance of credit cards increased by RMB12,812 million, RMB3,107 million and RMB1,595 million, or 37.67%, 26.03% and 24.81%, as compared to the end of last year, respectively. The increase in personal mortgage loan is mainly due to an increase in market demand.

As at December 31, 2017, the discounted bank's acceptance bills and discounted commercial acceptance bills of the Group were RMB219 million and RMB5,000 million, respectively. Among which, discounted bank's acceptance bills decreased significantly by RMB7,452 million, or 97.14%, as compared to the end of last year, mainly due to the fact that the Bank actively decreased the discounted bank's acceptance bills with low returns and increased corporate and person loans to stabilize the overall returns on loans.

DISTRIBUTION OF LOANS BY TYPE OF COLLATERAL

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Collateralized loans	179,578.26	61.07	152,948.25	62.20
Pledged loans	23,102.30	7.86	25,346.98	10.31
Guaranteed loans	65,060.99	22.13	45,332.99	18.44
Credit loans	26,271.72	8.94	22,263.08	9.05
Total loans to customers	294,013.27	100.00	245,891.30	100.00

As at December 31, 2017, the collateralized loans, guaranteed loans and credit loans of the Group increased by RMB26,630 million, RMB19,728 million, and RMB4,009 million, or 17.41%, 43.52% and 18.01%, as compared to the end of last year, respectively. The pledged loans decreased by RMB2,245 million or 8.86%. During this year, guaranteed loans and credit loans still increased significantly but pledged loans decreased. However, their share of total loans still added up to 68.94% overall, reflecting the prudent risk management policy of the Bank.

Management Discussion and Analysis

2. Investments

The following table sets forth the composition of investments of the Group as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Financial assets at fair value through profit or loss	15,270.18	6.50	35,980.38	15.92
Available-for-sale financial assets	68,876.56	29.32	88,278.36	39.04
Held-to-maturity investments	59,902.99	25.49	25,782.16	11.41
Debt securities classified as receivables	90,919.33	38.69	76,012.40	33.63
Total investments	234,969.06	100.00	226,053.30	100.00

As at December 31, 2017, total investments of the Group increased by RMB8,916 million, or 3.94%, to RMB234,969 million as compared to the end of last year.

Among which, held-to-maturity investments increased by RMB34,121 million, or 132.34%, as compared to the end of last year, mainly due to the fact that the Bank made adjustment to investment structure, resulting in an increase in held-to-maturity investments.

The following table sets forth the composition of debt securities investments of the Group as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Government bonds	27,982.69	12.31	21,040.10	10.67
Bonds issued by policy banks	61,634.64	27.11	48,727.06	24.71
Bonds issued by banks and other financial institutions	8,092.76	3.56	12,453.30	6.32
Corporate bonds	6,996.43	3.08	8,489.20	4.31
Debt instruments issued by financial institutions	122,639.37	53.94	106,474.54	53.99
Total debt securities investments	227,345.89	100.00	197,184.20	100.00

(II) Liabilities

The following table sets forth the composition of total liabilities of the Group as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Due to customers	488,671.86	71.11	423,742.04	68.00
Deposits from banks and other financial institutions	43,470.17	6.33	33,580.93	5.39
Placements from banks and other financial institutions	3,572.43	0.52	1,798.32	0.29
Repurchase agreements	23,829.47	3.47	48,597.80	7.80
Debt securities issued	101,383.78	14.75	92,295.38	14.81
Other ⁽¹⁾	26,308.23	3.83	23,096.95	3.71
Total liabilities	687,235.94	100	623,111.42	100.00

Note:

(1) Mainly including interest payable, borrowings from other banks and accrued staff costs.

As at December 31, 2017, the total liabilities of the Group increased by RMB64,125 million, or 10.29%, to RMB687,236 million as compared to the end of last year. The amount due to customers stably increased by RMB64,930 million, or 15.32%, as compared to the end of last year, whose proportion in the liabilities of the Group increased 3.11 percentage points.

Management Discussion and Analysis

1. Deposits from customers

The following table sets forth the amount due to customers of the Bank by product type as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)		Amount
Corporate deposits⁽¹⁾			Corporate deposits⁽¹⁾	
Time	100,321.44	20.53	Time	82,712.55
Demand	119,803.15	24.52	Demand	96,876.07
Subtotal	220,124.59	45.05	Subtotal	179,588.62
Personal deposits			Personal deposits	
Time	119,845.95	24.53	Time	110,200.32
Demand	92,918.34	19.01	Demand	81,438.65
Subtotal	212,764.29	43.54	Subtotal	191,638.97
Pledged deposits	11,443.91	2.34	Pledged deposits	11,538.23
Other deposits ⁽²⁾	44,339.07	9.07	Other deposits ⁽²⁾	40,976.22
Due to customers	488,671.86	100.00	Due to customers	423,742.04

Notes:

- (1) Mainly including deposits from corporate customers and government bodies.
- (2) Mainly including structured deposits, treasury time deposits and fiscal deposits raised from the launch of principal-preservation wealth management products by the Bank.

As at December 31, 2017, the amount due to customers increased by RMB64,930 million, or 15.32%, to RMB488,672 million as compared to the end of last year. With respect to the customer structure of the Group, personal deposits accounted for 43.54% of the total amount of deposits from customers, and the balance of personal deposits increased by RMB21,125 million, or 11.02%, as compared to the end of last year, corporate deposits (excluding pledged deposits) accounted for 45.05% of the total amount of deposits from customers, and the balance of corporate deposits increased by RMB40,536 million, or 22.57%, as compared to the end of last year. With respect to the maturity structure, demand deposits accounted for 43.53% of the total amount due to customers, representing an increase of 1.45 percentage points over the end of last year, while time deposits accounted for 45.05%, representing a decrease of 0.48 percentage points over the end of last year.

(III) Composition of Shareholders' Equity

The following table sets forth the composition of shareholders' equity of the Group as at the date indicated.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Share capital	9,808.27	20.23	8,153.42	21.55
Capital reserve	10,581.74	21.83	4,839.81	12.79
Surplus reserve	3,777.43	7.79	3,200.15	8.46
General risk reserve	8,718.22	17.98	8,020.43	21.20
Investment revaluation reserve	(2,023.72)	(4.17)	(713.83)	(1.89)
Remeasurement gains on defined benefit plans	68.17	0.14	33.82	0.09
Retained earnings	15,114.41	31.18	12,311.44	32.54
Non-controlling interests	2,433.20	5.02	1,994.46	5.27
Total shareholders' equity	48,477.72	100.00	37,839.70	100.00%

As at December 31, 2017, the Group recorded a paid-in capital of RMB9,808 million and capital reserve reached RMB10,582 million, an increase of RMB1,655 million and RMB5,742 million over the end of last year, respectively. Please refer to the financial statements for further details.

Management Discussion and Analysis

III. LOAN QUALITY ANALYSIS

(I) Five-Category Classification of Loans

The following table sets forth the distribution of the Group's loans by the five-category classification under which non-performing loans include loans classified into substandard, doubtful and loss categories as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Normal	282,467	96.07	232,045	94.37
Special mention	7,096	2.41	9,391	3.82
Substandard	1,019	0.35	1,835	0.75
Doubtful	2,555	0.87	2,151	0.87
Loss	876	0.30	469	0.19
Total loans to customers	294,013	100.00	245,891	100.00
Non-performing loan ratio⁽¹⁾	—	1.51	—	1.81

Note:

(1) As calculated by dividing the total amount of non-performing loans by total loans.

In 2017, faced with increasingly complicated economic and financial circumstances at home and abroad, the Group adhered to the work idea of taking a balanced approach to mitigate existing risks while preventing additional ones. The Group strictly controlled the quality and quantity of credit asset risks. Through carrying out "absolute collection" activity, the Group made great efforts to collect and transform non-performing assets. Meanwhile, the Group strengthened risk-alert, tracking and post-loan management, conducted solid checking and investigations on credit risks, took proactive actions to prevent and resolve risks in advance; the Group also revised the Articles of Association, developed systems and strengthen the refined management of credit. Therefore, the quality of the Bank's credit assets was stable with risks under control. As at December 31, 2017, the non-performing loan ratio was 1.51% which decreased by 0.3 percentage point from the end of last year.

Management Discussion and Analysis

(II) Distribution of Non-performing Corporate Loans by Industry

The following table sets forth the distribution of the Group's non-performing corporate loans by industry as at the dates indicated.

Item	As at December 31, 2017			As at December 31, 2016		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio ⁽¹⁾ (%)
Wholesale and retail	996	38.15	3.39	1,010	42.1	3.89
Agriculture, forestry, animal husbandry and fishery	131	5.03	2.52	42	1.8	0.97
Transportation, storage and postal services	117	4.49	1.23	1	—	0.02
Leasing and commercial services	330	12.64	1.10	77	3.2	0.32
Manufacturing	170	6.53	0.78	299	12.5	1.26
Construction	72	2.77	0.71	76	3.2	0.77
Information transmission, software and information technology services	11	0.44	0.37	10	0.4	0.34
Accommodation and catering	21	0.80	0.27	11	0.5	0.15
Household, repair and other services	5	0.17	0.20	3	0.1	0.14
Real estate	7	0.25	0.01	—	—	—
Water conservation, environment and public utilities management	—	—	—	—	—	—
Education	—	—	—	—	—	—
Health and social services	—	—	—	—	—	—
Production and supply of electricity, heat, gas and water	—	—	—	10	0.4	0.49
Other	750	28.72	11.21	861	35.9	15.37
Total non-performing corporate loans	2,610	100.0	1.36	2,400	100.0	1.57

Note:

- (1) As calculated by dividing non-performing loans (loans classified into substandard, doubtful and loss categories) of an industry by gross loans granted to such industry.

In 2017, faced with the complicated and ever-changing external economic conditions, the Group continued to optimize its industry-specific lending and exit criteria for customers. As such, the total non-performing corporate loans and the non-performing ratios of the companies were generally stable.

Management Discussion and Analysis

(III) Distribution of Non-performing Loans by Product Type

The following table sets forth the distribution of the Group's non-performing loans by product type as at the dates indicated.

Item	As at December 31, 2017			As at December 31, 2016		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio ⁽¹⁾ (%)
Corporate loans	2,610	100.00	1.36	2,400	100.0	1.57
Personal loans	1,840	100.00	1.91	2,056	100.0	2.53
Personal mortgage loans	129	7.03	0.28	123	6	0.36
Personal business loans	1,246	67.71	4.73	1,549	75.3	5.35
Personal consumption loans	135	7.34	0.90	109	5.3	0.91
Balance of credit cards	330	17.91	4.11	275	13.4	4.28
Discounted bills	—	—	—	—	—	—
Total non-performing loans	4,451	—	1.51	4,456	—	1.81

Note:

(1) As calculated by dividing non-performing loans (loans classified into substandard, doubtful and loss categories) in each product type by gross loans in that product type.

As at December 31, 2017, non-performing ratio of corporate loans decreased by 0.21 percentage point to 1.36% as compared to the end of last year, whereas the non-performing ratio of personal loans decreased by 0.62 percentage point to 1.90% as compared to the end of last year.

Management Discussion and Analysis

(IV) Overdue Loans to Customers

The following table sets forth, for the dates indicated, the aging timetable of the Group's loans by loan certificate.

Item	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Loans that are not past due	288,048	97.97	237,147	96.4
Loans that are past due	5,965	2.03	8,744	3.6
Within three months	1,801	0.61	3,572	1.5
More than three months and within one year	783	0.27	1,429	0.6
More than one year and within three years	2,424	0.82	3,120	1.3
More than three years	957	0.33	624	0.3
Total loans	294,013	100.00	245,891	100.0
Loans that are past due for more than three months	4,164	1.42	5,173	2.1

As at December 31, 2017, overdue loans amounted to RMB5,965 million, representing a decrease of RMB2,779 million from the end of last year and accounting for 2.03% of the total loans, representing a decrease of 1.57 percentage point from the end of last year.

(V) Rescheduled Loans and Advances

Item	As at December 31, 2017		As at December 31, 2016	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Rescheduled loans and advances	3,478	1.18	3,674	1.49

As at December 31, 2017, rescheduled loans and advances amounted to RMB3,478 million, representing a decrease of RMB196 million as compared to that at the end of last year.

Management Discussion and Analysis

IV. ANALYSIS OF CAPITAL ADEQUACY RATIO

The Group adopted the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) to calculate capital adequacy ratio, among which, the credit risk was measured at weight method, the market risk was measured at standard method and the operational risk was measured at basic indicator approach, covering all branches of the Bank as well as subsidiaries which are financial institutions under the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). The following table sets forth, for the dates indicated, the relevant information of the Group's capital adequacy ratio.

(Expressed in RMB million, unless otherwise stated)	December 31, 2017	December 31, 2016
Core Tier 1 capital adequacy ratio	10.69%	9.90%
Tier 1 capital adequacy ratio	10.72%	9.92%
Capital adequacy ratio	12.00%	12.16%
Portion of paid-in capital that may be included	9,808.27	8,153.42
Portion of capital reserve that may be included	10,581.74	4,839.81
Surplus reserve	3,777.43	3,200.15
General risk reserve	8,718.22	8,020.43
Retained earnings	15,114.41	12,311.44
Portion of minority interests may be included	991.18	1,103.43
Others	(1,955.55)	(680.01)
Total core Tier 1 capital	47,035.70	36,948.67
Regulatory deductions for core Tier 1 capital		
Goodwill (net of deferred tax liability)	(382.22)	—
Other intangible assets (excluding land use rights)	(208.07)	(115.90)
Core Tier 1 capital, net	46,445.41	36,832.77
Other Tier 1 capital		
Portion of minority interests may be included	132.16	92.89
Net Tier 1 capital	46,577.57	36,925.66
Tier 2 capital		
Tier 2 capital instruments and related premium that may be included	4,096.65	6,195.30
Excessive loan allowances	1,144.23	1,883.80
Portion of minority interests may be included	328.66	272.02
Net capital	52,147.11	45,276.78
Total risk-weighted assets	434,513.31	372,211.31

As at December 31, 2017, the capital adequacy ratio of the Group was 12.00%, representing a decrease of 0.16 percentage points as compared with 2016. The decrease was mainly due to the significant increase in risk-weighted assets in 2017 and the increase exceeded that of net capital. At the end of 2017, the net capital of the Bank was RMB52,147 million, representing an increase of RMB6,807 million or 15.17% as compared with the end of 2016. The increase was mainly due to the successful issuance of H shares and retention of profits, which substantially supplemented capital. However, due to the significantly higher increases in size of loans as well as the scale of bond investments compared with that in 2016 and changes in the structure of the receivables investment, the risk-weighted assets of the Bank increased by RMB62,302 million or 16.74%. The increase exceeded the growth rate of net capital, so the capital adequacy ratio therefore decreased in 2017.

V. ANALYSIS OF LEVERAGE RATIO

As of December 31, 2017, the Group measured and disclosed the leverage ratio in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》).

(Expressed in RMB million, unless otherwise stated)	December 31, 2017
Net Tier 1 capital	46,577.57
The balance of assets on and off balance sheet after adjustments	767,952.65
Leverage ratio (%)	6.07%

VI. SEGMENT INFORMATION

The Group conducts its business principally in Guangdong, the PRC, with its major customers and non-current assets distributed in Guangdong, the PRC.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2016		For the year ended December 31, 2017	
	Amount	Percentage of total amount (%)	Amount	Percentage of total amount (%)
Corporate banking business	6,617.82	43.4%	6,678.34	49.6%
Retail banking business	5,971.75	39.2%	5,839.96	43.3%
Treasury business	2,621.73	17.2%	827.75	6.1%
Others	28.49	0.2%	132.61	1.0%
Total operating income	15,239.79		13,478.66	

VII. ANALYSIS OF OFF-BALANCE-SHEET ITEMS

The Bank's off-balance-sheet items mainly include loan commitments, acceptance bills, unutilized credit card facilities, issuance of letters of guarantee and issuance of letters of credit arising from the ordinary business operations of the Bank. As at December 31, 2017, the balances of loan commitments, acceptance bills, unutilized credit card facilities, issuance of letters of guarantee and issuance of letters of credit were RMB87,366 million, RMB6,518 million and RMB12,378 million, RMB14,924 million and RMB1,637 million, respectively.

VIII. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

For details on the Group's contingent liabilities and pledge of assets as at December 31, 2017, please refer to notes 42 and 44 to the condensed consolidated financial statements.

Management Discussion and Analysis

BUSINESS OPERATION

I. Corporate banking business

(1) Corporate Deposit and Loan Business

The Bank endeavored to expand the corporate deposit market. During 2017, the Bank promoted and implemented large projects and utilized various deposit products, driving a steady growth in corporate deposits. As at December 31, 2017, the balance of corporate deposits (including pledged deposits and other deposits) of the Bank reached RMB231.9 billion, an increase of RMB36,600 million as compared to the end of last year, accounting for 51.83% of the balance of various deposits of the Bank, ranking third in the Guangzhou regional market.

In terms of loans, benefiting from the recovering economy this year, corporate entities showed a strong demand for credit loans. As such, corporate asset business developed rapidly and achieved good results with regards to the policy on extending corporate loans, the Bank adhered to operating according to the principle that was in compliance with laws, and effectively observed the macroeconomic control policy of the country and the local economic operations, and expanded its corporate loan business in a prudent, steady and appropriate manner. As at December 31, 2017, the on-balance of corporate loans amounted to RMB176,413 million, representing an increase of RMB30,975 million or 21.3% as compared to the end of last year, ranking second in the Guangzhou region in terms of increment. The Bank extended a total of RMB138.2 billion to 2,142 customers on the balance during the current year. With respect to customer's composition, relying on the ever improving organization structure, enriched product system and the customer management team with gradually enhanced comprehensive quality, the Bank was committed to maintaining and strengthening its partnership with government institutions, provincial and municipal enterprises, and large listed companies whilst forging closer business collaboration with industry leaders including top 500 enterprises in Guangdong, as well as prime SME customers. In 2017, the Bank extended RMB80.3 billion of loans to large- and medium-sized customers, accounting for 58.1% of the total, and RMB57.9 billion of loans to small and micro customers, accounting for 41.9% of the total. The Bank mainly invested in the customer bases which possessed stronger anti-risk capabilities and were in compliance with the orientation of credit policy including state-owned enterprises, real estate, operating properties and listed companies. The risks were generally controllable. Meanwhile, the Bank emphasized on expanding its assets business to guarantee market share. The Bank also cultivated new customers, strengthened market expansion, and consolidated and expanded the customer base.

(2) International Business

The international business achieved a stable development. In 2017, the Bank's settlement of international business amounted to USD14,397 million, representing a year-on-year increase of 40.87%, and the amount of the international business deposits was RMB3,542 million, representing a year-on-year increase of 73.2%. International business products improved steadily. The Bank successfully implemented many new business including multinational enterprise group's operation of cross-border bilateral RMB cash pooling business, comprehensive cross-border financing, cross-border E-commerce RMB settlement, cross-border financial leasing, settlement through electronic channels, achieving growth in both scale and benefits of international business. Further, the Bank successfully launched personal cross-border products including comprehensive products for personal outbound financial service and Western Union, making the Bank the first rural commercial bank to provide Western Union services in the PRC; in line with the construction concept of "Guangdong-Hong Kong-Macao Bay Area", the Bank launched featured financial service products such as "NRA Settlement Link", "Hong Kong-Guangdong Electronic Cheque", and "Cross-border Financing Link". Among them, "Cross-border Financing Link" product was selected as a "Golden Idea" for Finance of Guangdong. The product satisfied the customer's growing demand for financial services in all aspects. With further improvement in the width and depth of interbank collaboration, the Bank has established correspondent banking relationship with over 300 domestic and foreign banks and formed partnership with a number of domestic and foreign banks in terms of interbank credit business. During the year, 52 domestic and overseas agent banks were newly opened, the first Cross-border RMB global clearing (CIPS) business was successfully handled, and the US dollar clearing account of the US Cathay Bank was created, thus further broadening the source of and the channels for foreign capital inflow, enriching the cross-border business clearing channels of the Bank and optimizing the management of accounting bank. While developing its businesses, the Bank ensured the safe operation of international business through optimizing management, accelerating the functional construction of business supporting system, upgrading various systems as required by regulatory institutions and strengthening internal control and others.

(III) Trading Bank

The Bank created the transaction banking service system to drive growth in performance. As of the end of 2017, the scale of company transaction settlement amounted to RMB4,776.7 billion, representing a year-on-year increase of 27%; the number of effective customers for the public Internet ID amounted to 23,739, representing a year-on-year increase of 35%. Focusing on the three major supporting platforms of business of “payment and settlement, corporate finance, and investment and wealth management” and the supporting platform of technological finance, the Bank continued to integrate products and services and launched competitive products such as smart deposit platform, winners’ business circles, and deposit certificates. Through cross-border cooperation and exploration of transformation and innovation, the Bank and Tencent Technology jointly signed a strategic cooperation agreement for financial technology. They formally formed a comprehensive strategic partnership, and jointly initiated the construction of a financial technology innovation laboratory. In order to further expand the cooperative field of banking and government cooperation, the Bank obtained the first batch of banking qualifications for the management and payment of wages for workers in the construction field in Guangzhou; The Bank became the first bank in Guangzhou that updated the regulatory platform for restructuring of funds and offered the funds supervision service of the online cities through the Internet. Its market prospect is bright. The asset transaction model was innovated. It promoted the development of light capital business through accelerating the construction of asset transaction platform. It also expanded the model of forfeiting through Winner e-station (贏家e站) and domestic letter of credit. The Bank successfully implemented precious metal industry supply chain financial solutions, integrated financial service of treasury management solutions, and supervision service of city renewal fund solutions. Through product and service innovation, the Bank is committed to providing corporate customers with integrated financial services solution for transaction banking, establishing close relationship with customers. The close relationship benefited the Bank by contributing low-cost funds and comprehensive income.

II. Personal Banking Business

(1) Personal Deposits

The Bank continued to carry out the “More Discounts with More Use of Sun Debit Card (太陽借記卡·越刷越有米)” serial marketing campaigns. Through the partnership with famous merchants including Gome Electrical Appliance and Vanguard and recreation of a scenario marketing environment for customers, the Bank’s products expanded marketing platforms for various branches, and realized a deeper and broader development of business. Taking the occasion of the summer holiday, the Bank jointly organized a two-month talent contest of “The Sun Talent Cup (太陽達人杯)” with Nanfang Daily Media Group. This was well received by the market, achieving a good joint marketing effect and brand effect. In addition, focusing on Mother’s Day, Mid-Autumn Festival and other festivals, the Bank carried out theme activities for VIP customers, such as “Give a Present to Mother (獻禮母親)”, “Health and Physiotherapy (健康理療)” and “Raising Lantern and Admiring the Full Moon (挑燈望月)”. Moreover, the Bank take the occasion of great Autumn to carry out the marketing activity of “Expanding Customer Bases, Increasing Reserves and Thanking Customers” at the Twin Festivals, which in turn deepened value-added services for medium- and high-end customers and enhanced their loyalty. These activities also promoted the product marketing of personal banking business and drove sustained growth of personal deposits.

As of the end of 2017, the Bank maintained a stable growth in personal deposits, with average daily balance reaching RMB209,078 million, representing an increase of RMB18,127 million, or 9.49%, over the end of last year. The market share of personal deposits remained the third in the same industry in Guangzhou.

The Bank organized a number of giving-back theme activities for VIP customers, such as “GRCB VIP Retail Customers New Year Music Concert (廣州農商銀行零售貴賓客戶新年音樂會)”, “Sun Christmas Warmth Season, Free Authentic Thermos Products (太陽聖誕溫馨季·膳魔師正品免費送)”, “Sun Christmas Movie Season, Free New Movies and Blockbuster Movies (太陽聖誕電影季·新片大片免費睇)”, “Sun Goddess Season, Nice Gifts to Communities (太陽女神季·好禮進社區)”, “Sun Parent-Child Season (太陽親子季)”, “The Affection for the Pearl River with Blooming Flowers and Full Moon (花好月圓珠江情)” and “The Colour of the Thought (思想的色彩)”.

Management Discussion and Analysis

(2) Personal Loans business

1. The featured financial loan products of the Bank

The Bank closely adhered to the concept of “new-type consumer finance” and continuously optimized the financial product “Sun • Finger-tip loan (太陽 • 指尖貸)” (launched by Zhujiang Direct Sale APP Platform) based on the needs of market and customers. “Sun • Finger-tip loan (太陽 • 指尖貸)” was based on third-party data and information recognised by the Bank, without pledge and guarantee. One can apply for the personal credit data for a maximum loan of RMB0.3 million. It met the customers’ need of loan for anytime and anywhere, to solve their small and temporary financing difficulties. As of the end of 2017, a total of 12,533 “Sun • Finger-tip loan” were issued, with a cumulative amount of RMB1,603 million.

The Bank also launched products including “Sun • Easy Buying Car (太陽 • 購車易)” and “Villagers Dividends and Fast Loans (村民分紅快貸)” for specific consumption purposes. The Bank also provided the specific products for individuals’ multiaspect consumption, satisfying the capital requirements of residents’ daily consumption.

2. The Optimization of Service Procedure

- (1) The Bank continuously optimized the online personal financing products and improved the application process for finger-tip loan customers. It met customers’ needs for loans anytime and everywhere, greatly improving customers’ experience.
- (2) The Bank made the offline businesses online, and added operations such as mortgages, online lending of traditional consumer loan and online repayment to the Zhujiang Direct Sales App of the Bank;
- (3) The Bank constantly improved the timeliness of all aspects of work, meet customers’ needs more efficiently. The Bank was committed to providing customers with better loan services.

3. Scale of loan

As of the end of 2017, the balance of personal consumption loans of the Bank reached RMB56,152 million, of which, the balance of mortgage loans was RMB43,254 million, an increase of RMB10,042 million, or 30.24%, as compared to the end of last year, the balance of traditional consumption loans was RMB11,647 million, an increase of RMB2,080 million, or 21.69%, as compared to the end of last year, and the balance of new consumption loans was RMB1,251 million, an increase of RMB754 million, or 152.14%, as compared to the end of last year.

The growth of the business was mainly due to the Bank’s development of individual housing and credit-related consumption products. The Bank adhered to the concept of “new consumption finance” and “Internet+” and continuously introducing new personal consumption loan products.

(3) SME Business

As at December 31, 2017, the balance of SME loans (according to the basis of the People’s Bank of China) amounted to RMB17,788 million.

1. Specialized institutions

The Bank established specialized institutions for SMEs and expanded the coverage of services for SMEs. As at December 31, 2017, the Bank established a total of 13 SME business centers, covering all regions in Guangzhou. Combining the characteristics of regional customers, all SME centers developed featured products and bulk service plans to promote the characteristic operation of specialized branches, leading the transformation and upgrading of the SME business of the Bank at all levels.

2. Credit products

The Bank continued to innovate loan services models. The Bank launched financial products with small and micro characteristics, including “Sun Ultra-long-term Loans (太陽超長貸)”, “Sun • Easy Renewing Loans (太陽•易續貸)”, “Sun • Business Loans for Villagers (太陽•村民致富貸)”, “Happiness, Enjoyment and Harmony (悅享融)”, “Online Self-service Cyclic Loans (線上自助循環貸)” whilst promoting the “1+N” mass customer acquisition model to meet the financing needs of small and micro customers from small sectors, such as rural farming type and women’ innovation activities.

3. Customer manager team

In order to further enhance customer managers for SMEs, the understanding of the investigation technology of small-micro loans and capability of applying the combination of new products, the Bank organized customer managers for SMEs to attend a series of systematic trainings including the “Introduction to Survey Technologies for Small and Micro Loans”, “Case Analysis of Small and Micro Loans”, “Case Analysis of Business Models” and “Interpretation of Product System”, which achieved full coverage and fully improved the understanding and application capability of customer managers for SMEs on mass customized business model.

(IV) Bank Cards

In 2017, with the opportunity of the Bank’s public listing and that Fortune Global Forum being held in Guangzhou, the Bank launched the first debit card in the industry with the theme of Guangzhou Culture and the image of Guangzhou City. - “Flower City Card”. Moreover, the Bank successfully held a press conference on October 30, 2017. Through the series of the themed marketing activities of “Flower City Card inviting you to visit the Flower City”, the Bank provided customers with Guangzhou-styled attractions, catering and entertainment and lottery activities. The Bank offered consumption rights to the card, effectively motivating customers’ to use the card and attracting the market’s attention.

In response to the requirements of the Guangzhou Municipal Commission of Housing and Urban-Rural Development, the Bank actively promoted the management of wages for construction workers in Guangzhou. The Bank became one of the three agency banks. In order to address the financial services needs of construction workers, the Bank developed and launched a dedicated debit card for construction workers “Sun Homeland Card (太陽家園卡). The name means “building a city together with a warm homeland dream”. The card was equipped with a number of fee reduction concessions and exclusive value-added services, and is gaining market recognition.

As of the end of 2017, the Bank issued an accumulation of 1,412,500 new personal debit cards, and had 6,578,100 existing personal debit cards. The cumulative deposit balance of existing personal debit cards amounted to RMB76,288 million, representing a year-on-year increase of RMB10,269 million. In 2017, the cumulative spending related to the debit cards of the Bank amounted to RMB56,525 million, and various fee income of personal debit cards reached RMB72 million.

With respect to the credit card business, the Bank enhanced product innovation, marketing promotion and market promotional activities, resulting in a steady increase in the scale of cards in issue and a continued growth in spending amount. The Bank continued to implement the principle of “favorable rates to quality customers”. The Bank conducted tiered pricing and targeted marketing on customers, and vigorously developed featured high-income installment business, thereby increasing the overall contribution of customers. Meanwhile, the Bank proactively promoted the brand building of credit cards, consolidated cross-sector alliance, and constantly upgraded product interests, which enhanced customers’ loyalty. As of the end of December, 2017, the total number of credit cards in issue has exceeded 1.218 million, an increase of 0.2348 million over the end of last year. In 2017, the operating income generated from the credit card business of the Bank reached RMB671 million, an increase of 23.12% year-on-year. In 2017, the bank’s intermediate income from credit card business reached RMB437 million, representing a year-on-year increase of 50%.

Management Discussion and Analysis

(V) Retail Wealth Management Services

The Bank promoted continuous improvement in product structure. As of the end of 2017, the balance of existing wealth management products amounted to RMB52,851 million, representing an increase of RMB13,588 million or 34.61% as compared to the beginning of the year; there were 279 existing retail wealth management products, of which 57 were principal-preservation wealth management and 222 were non-guaranteed wealth management products. From the perspective of product operation mode, the company complied with the new regulations on asset management and gradually increased the scale of open wealth management. During the year, the proportion of open wealth management products increased by 8.23%. The Bank gradually improved the customer product tiering mechanism of wealth management products, guided customers to purchase tiers through maturity differences, differences in interest rate, and differences in starting point of subscription, enhanced quality customers' support for products, introduced timely customer-specific wealth management, and implemented accurate sales. The Bank adjusted the business structure of insurance offered by the Bank, transformed the payment business, and gradually adjusted the current business structure of over-concentration of products and the structure mainly with time-based payment. We continued to enrich the product range of the fund and introduced high-quality fund managers such as Xingquan and Zhongrong. In this year, key products generated more than 20% revenue on average for customers.

The Bank enhanced R&D of product innovation. Taking product innovation as an important starting point for enhancing the overall strength of the Bank's wealth business, the Bank increased investment in innovation, mainly promoting product innovation from self-managed wealth management and agents-selling funds, and launching the short-term wealth management fund of "Sun • Regular Fund (太陽 • 定期寶)", and the open wealth management "Sun • Daily Wealth Added (太陽 • 天添金)" and (Sun • Monthly Wealth (太陽 • 月月金)". As of the end of 2017, the balance of the open wealth management product "Sun • Daily Wealth Added (太陽 • 天添金)" amounted to RMB1,386 million, representing a month-on-month increase of 53.51%; the balance of the product "Sun • Monthly Wealth (太陽 • 月月金)" amounted to RMB528 million. They gradually replaced the original closed-end product of which the maturity period is 1 month.

III. Financial Market Business

In 2017, with the increasingly stringent financial regulation and a series of regulatory policies subsequently introduced to the financial market business, the financial market business was confronted with severe challenges in terms of limited investment scale and investment scope. Meanwhile, the yields in inter-bank business also showed a gradual downward trend. As of the end of December, 2017, the total assets scale of financial market segment was RMB443,926 million, with a net interest income of RMB939 million, net fee and commission income of RMB233 million, and operating income of RMB828 million.

As of the end of December, 2017, the balance of wealth management products was RMB159,111 million, a decrease of 7.72% over the beginning of the year, of which, the balance of non-principal-preservation products with floating gains was RMB123,450 million, while that of the principal-preservation products with floating gains was RMB35,661 million.

The Bank's wealth management investment focuses on money market instruments, debt securities, debt securities of enhancement type. As of the end of December, 2017, the investment balance of debt securities and money market instruments amounted to RMB87,762 million, accounting for 55.25% of the total, the investment balance of debt securities of enhancement type amounted to RMB24,065 million, accounting for 15.15% of the total, the rest of the investment amounted to RMB47,023 million, accounting for 29.60%.

In 2017, the Bank was awarded for many times, including the "Interbank Market Active Trader in 2017", "Interbank Market Excellent Money Market Trader in 2017", and "Interbank Market Transactions in 2017". "300". Its industry status had been further improved.

On June 3, 2017, the fifth "Taurus Wealth Management Forum (金牛財富管理論壇)" and the awarding ceremony for "Taurus Wealth Management Products (金牛理財產品) in 2016" guided by China Fortune Media Group, China Securities Journal and Xihua Net (新華網) and organized by Taurus Wealth Management Net (金牛理財網) were grandly held in Beijing. The "Sun Wenfu (太陽穩富)" serial product of GRCB stood out in the fierce competition and was awarded the "Taurus Wealth Management Products (金牛理財產品) in 2016 — Non-principal-preservation Type".

In August 2017, the results of the evaluation on banking product issuing agency in 2016 organized by the Financial Services Professional Committee of the China Banking Association were announced. The Bank was awarded the "Best Rural Commercial Bank Award" and "Best Earnings Award" of the financial institutions of China's banking industry.

In the first quarter of 2017, our Bank's wealth management products ranked 1st in terms of comprehensive wealth management capabilities, as well as five single items of issuance capability, income capability, risk control capability, product diversity and information disclosure standardization of rural financial institutions under PY Standard. In the second quarter of 2017, our Bank's wealth management products ranked 1st in terms of comprehensive wealth management capabilities of rural financial institutions under PY Standard, with three single items including income capability and information disclosure standardization ranking first, and issuance capability and product diversity ranking second. In the third quarter of 2017, our Bank's wealth management products ranked 1st in terms of comprehensive wealth management capabilities, as well as three single items of income capability, risk control capability and product diversity, and issuance capability and information disclosure standardization ranking second of rural financial institutions under PY Standard; in the fourth quarter of 2017, our Bank's wealth management products ranked 1st in terms of comprehensive wealth management capabilities, as well as five single items of issuance capability, income capability, risk control capability, product diversity and information disclosure standardization of rural financial institutions under PY Standard.

IV. Distribution Channels

(1) Physical Outlets

As of December 31, 2017, the Bank had 626 operating outlets, of which 618 were located in Guangzhou, accounting for approximately 23% of the total number of operating outlets of all commercial banks in Guangzhou, ranking first. The Bank operated 5 non-local branches in Foshan, Qingyuan, Heyuan, Zhaoqing and Zhuhai in Guangdong Province.

(2) Self-service Banking

In order to expand the scope of customer services and provide customers with more convenient services, as of December 31, 2017, the Bank established 177 24-hour self-service banking facilities and the number of ATMs and self-service inquiry terminals increased to 3,258. The proportion of machine to outlet was nearly 5.07:1, among which the number of ATMs in operation was 2,420, while the number of self-service inquiry terminals in operation was 838.

(3) Electronic Internet Finance

(1) Direct banking

With APP, scenario H5 and other diversified electric entrances as gateways, the Bank enriched investment products of direct banking in bulk and rapidly based on the platform cooperation model. The Bank leveraged on the third-party fund sales platform to set up funding supermarket business quickly. The Bank's connected assets and fund provided public wealth management services with low entry threshold, flexible terms, leading yields and no regional restrictions on purchasing to supplement the deficiency of traditional products with high entry threshold. Meanwhile, the Bank adhered to the characteristics of business data to continue to develop the innovation of online loan business. The Bank introduced value-added services such as payment of Party membership fees, annuity enquiries, penalties and payments, financial information, enhancing the openness and diversity of the platform. Moreover, through actively leveraging the opportunities of transformation for the industry brought about by "Internet +", the Bank introduced the e-Account Connect (e賬通) electronic accounts to deliver standardized products including account opening, payment, wealth management, loan and value-added service to third parties, such as professional markets, communities, universities and colleges. Further, the Bank linked the businesses with its cooperators, and expanded and deepened the ecological financial service models including Zhifu Business Circles (智富商圈), Wisdom Community (智慧社區) and Wisdom Campus (智慧校園) to delivered one-stop online services beyond finance to customers. As of the end of December, 2017, the number of direct banking customers was approximately 485,600. From January to December, 2017, the Bank's transaction amount of financial products was approximately RMB8,706 million, an increase of 697% year-on-year.

Management Discussion and Analysis

(2) Online payment business

The Bank vigorously developed online payment services such as quick payment, gateway payment, and mobile payment. The Bank becomes the first regional bank which got accessed to the Netcom clearing platform, and conducted third-party payment services through the NetLink clearing platform to provide customers with convenient and secure payment service. In 2017, there were over 240 million transactions which were settled through online payment, with an amount of over RMB97.6 billion, which increased by 142% and 126%, respectively, over the corresponding period of last year.

(3) Online mall (Sun Market (太陽集市))

Through integrating the Bank's advantageous agricultural service resources, and focusing on the landmark agricultural products of village communities and featured Bed and Breakfast, the Sun Market online mall platform gave play to the advantages in "Internet + Agriculture" service model, and cooperated with village and township banks and enterprises to realize the full-chain tracking and operation of "fruit pick-up — sales through the platform — logistics and cold chain — delivery to home", and tried direct supply and pre-sale of agricultural industry chain. It also launched crowd funding for agricultural substance, and developed services integrating agricultural information and manufacturing and trading. The Bank established a shared financial model, reached strategic cooperation with the largest new energy vehicle sharing platform in China, launched an O2O model, opened up businesses such as farms, chains, and alliances with different industries to launch businesses, gain access to customers, and created cultural and artistic collections and agricultural product theme experience stores, creating diversified service scenes. As of the end of 2017, the number of online mall customers was approximately 116,800 with the number of partnered merchants amounting to 210. From January to December, 2017, the Bank received 141,500 orders, an increase of 290% year-on-year.

(4) Personal internet banking

The Bank has been actively engaged in optimizing online banking. Centering on customers, and through rapid iteration, the Bank launched innovative functions including transfer delay, exchange settlement, Zhou Zhou Jin Wealth Management (周周金理財) to provide quality and convenient financial services to customers. As of the end of 2017, the number of personal internet banking customers was approximately 1.66 million. 5.4053 million financial transactions occurred from January to December, 2017, an increase of 6% over the corresponding period of last year. The monetary amount of transactions occurred was RMB270,250 million, an increase of 16% over the corresponding period of last year.

(5) Mobile Banking

The Bank launched a new version of the personal mobile banking APP to focus on the customer to achieve a unified view of customer assets, and to fully support fingerprint payment and multiple payment methods. The Bank launched innovative functions including collection and payment with phone numbers, exchange settlement, Xi Li De Wealth Management (息立得理財), intelligent online customer service, APP message push and Acquaintance Circles (熟人圈) to fully improve interaction experience in investment and wealth management, lifestyle services, and customer interaction segments. As of the end of 2017, the number of mobile banking customers was 316 million. 10.0255 million financial transactions occurred in 2017, representing an increase of 11% over the corresponding period of last year; the monetary amount of transactions occurred was RMB185,609 million, representing an increase of 65% over the corresponding period of last year.

(6) WeChat banking

The Bank fully upgraded and revised WeChat banking to support the expansion of WeChat acquiring merchants, to provide online search, online customer service, account query, information interaction, financial product promotion and other functions. Moreover, the Bank continued to operate WeChat account platform. As of the end of 2017, the number of followers of our official WeChat account reached 380,000.

(7) Smart banking

As of the end of 2017, the Bank installed a total of 27 smart banking outlets and smart facilities including VTM and STM. Financial transactions worth RMB1,390 million have been settled through smart banking in 2017.

V. Principal Subsidiaries

Zhujiang County Banks is a general name for the village and township banks established by the Bank as a major promoter. The establishment of village and township banks is of great significance to the performance of social responsibility, strengthening the service to new rural construction, exploring the development of business growth and establishing a sustainable model for the growth of profit of the Bank. During the Reporting Period, the Bank put more efforts in the assistance to the village and township banks and steadily improved the operations of the village and township banks. During the year ended December 31, 2017, the Bank established 24 Zhujiang County Banks with aggregate asset amounting to RMB44,472 million and the balance of deposits and loans in aggregate amounting to RMB36,641 million and RMB21,731 million, respectively.

Zhujiang Financial Leasing Co., Ltd. incorporated and commenced operation in December, 2014, is a wholly-owned subsidiary promoted and established by the Bank, with a registered capital of RMB1 billion. It is mainly engaged in financial leasing related business.

Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd. incorporated and commenced operation in December, 2017, is a holding subsidiary of the Bank, with a registered capital of RMB0.6 billion. It is mainly engaged in monetary financial business.

VI. Information Technology

In 2017, the Bank proactively propelled the establishment of information system and continuously intensified the supporting role of information technology in the development of banking business. In 2017, the completion rate of major project plans was 100%. In 2017, important information system maintained a stable operation, achieving the annual goal of “zero” information security incident.

(1) Technology governance

The Bank focused on enhancing the ability of science and technology governance and the improvement in the capabilities of technology management. The Innovation and Technology Construction Committee under the senior management of the Bank organized and convened meeting of the special committee, at which a series of important proposals were considered and passed in 2017, including the Technology Construction Plan for 2017, Scientific and Technological Outsourcing Strategy, Local High-Availability of Data Centers in 2018, and Disaster Recovery Planning in Cities. The Bank commenced the establishment of information technology management system, completed the addition and revision of more than 30 scientific and technical systems and operating procedures; carried out reforms on the performance appraisal of scientific and technical personnel; improved the project management system; strengthened the establishment of the information security system, business continuity system, and operation supervision; improved the capacity of independent research and development of science and technology effectively.

(2) Information security guarantee

The Bank carried out regular check on information security, specific self-review on information security, risk assessment of the security of the application system of Internet, and the emergency drill of Internet security to ensure the information system operated aged equipment in a safe and stable manner. Further, the Bank regularly upgraded and changed the aged equipment, promoted local high-availability construction work and removed potential safety hazards in the operation of equipment, to enhance the deployment of automated monitoring, and optimized the procedures for operation and maintenance, guaranteeing the security and stability during operation and maintenance. The Bank made effort to promote cybersecurity knowledge and raising employees' awareness of information security.

Management Discussion and Analysis

(3) Business continuity management

The Bank paid high attention to the business continuity management, and continuously optimized management system of business continuity to ensure the continuous and steady operation of the Bank's businesses. In 2017, the Bank carried out the identification of the major businesses and related resources throughout the Bank. The Bank completed the works including analysis and risk assessment on self-service equipment, online banking, mobile banking and many other important business, organization of special emergency plan revisions, business continuity drills, full verification of the recovery capabilities of taking over real business operations in disaster scenarios, and successful establishment of counter services around the counter. The business process continuity management benchmark provides a good example for promoting the Bank's business continuity management; issuing a bank-wide business continuity management plan, revising business continuity management strategies, formulating work guidelines, and adjusting information technology outbreaks and building emergency response mechanism. These further enhanced the effectiveness of the management of business continuity.

(4) Information system construction

The Bank continued to promote the implementation of the Internet finance strategy, further enriched the direct banking financial products, and realized the connection between the payment platform and the networked system. The Bank provided Internet customers with online account opening, wealth management, financing and other financial products as well as convenient payment and settlement services. The construction of science and technology strongly supported business line and branch business development. In 2017, the Bank completed the system development of key projects including comprehensive order collection system for merchants, interbank CRM system, uniform user management platform, living detection platform, integration project of upgrading customer service agent system, external information service platform and risk early warning monitoring system. Meanwhile, the Bank completed the development of a number of major development works such as the Guangzhou Construction Workers' Salary Allocation System, Tencent • Sun Cloud Bank, Guangzhou Land and Resources, Bidding, and Urban Renovation Funds Custody System.

The Bank steadily promoted the practice of big data technology, further optimized the data service architecture, and initially established the basic data service platform framework and had the ability to provide big data technology services. The Bank proactively promoted the construction of production and disaster recovery data centers, and endeavored to develop green intelligent data center so as to lay a foundation for the business development.

(5) Technological innovation research

The Bank paid high attention to technological innovation. The Bank carried out research on technological innovation projects including the Research and Practice on the Plan for Realization of Gated Launch Based on Distributed Database (《基於分佈式數據庫的灰度發佈實現方案的研究與實踐》) and the Research on Management Model and Capability Cultivation for Handling of Information Technology Sudden Event of Medium and Small Banks (《中小銀行信息科技突發事件應急處置管理模型與能力建設研究》). It was also awarded 2017 Banking Information Technology Risk Management Project Category II Achievement Award and Category IV Achievement Award respectively by China Banking Regulatory Commission.

VII. Employees and Human Resources Management

(1) Basic Information on Employees

As of December 31, 2017, the Bank had 7,778 regular employees, of whom 5,200 employees held bachelor's degrees or above, representing 66.86% of all the Bank's regular employees.

(2) Human Resources Management

In 2017, the Ministry of Human Resources focused on the strategic deployment of the Bank, continued to promote the optimization of the human resources structure of the Bank, actively introduced external talents, strengthened the basic management work, improved the level of management informationization, and strengthened the work environment of internal staff. Meanwhile, it constantly improved the mechanism of internal market-oriented talent selection, explored a more scientific and rational talent allocation method, established bank-wide reserve talent teams, and focused on improving organization efficiency and human resource efficiency, and created a modern enterprise with strong competitiveness, high cohesion, professionalism, and unity. The staff of the commercial bank laid solid talent bases for the rapid development of the Bank's business. In 2017, based on the strategic deployment of the Bank, the human resources department continued to promote optimizing the composition of human resources of the Bank, actively introduced external talents, consolidated fundamental management, improved digitized management, and strengthened the diligence work of internal staff. While refining the market-oriented mechanism for talent recruitment and employment, the department explored more scientific and reasonable methods for talent allotment, and establishing a reserve talent team for the Bank, endeavored to enhance the efficiency of the organizations and human resources, with an aim to develop a competitive, cohesive, professional and united modern commercial banking staff team and lay a solid talent basis for the rapid development of the Bank's business.

(3) Training

The Bank stayed committed to the improvement of the occupational quality of staff. On the one hand, the Bank has established our internal corporate university "Zhujiang Business School" to develop E-learning platform, design refined training course system for professionals at various levels and of different types, and carry out targeted and diversified training for staff. On the other hand, the Bank has set up post-doctoral research center and the Zhujiang Financial Research Institute (珠江金融研究院) to establish a platform for high-end research and cultivation of managers. In 2017, Zhujiang Business School held 475 sessions of staff training of all kinds with some 40,000 attendees, fully improving the comprehensive quality of staff.

THE SAFEGUARD AGAINST THE INTERESTS OF FINANCIAL CONSUMERS

In 2017, the Bank continued to strengthen various work on the protection of the rights and interests of financial consumers by improving the organizational structure, improving the institutional system, and implementing various measures for protecting the rights and interests of financial consumers.

I. Perfecting the Organizational System for Protecting the Rights and Interests of Financial Consumers

Firstly, the Bank established Consumer Rights Protection Committee under the board of directors and formulated the Rules of Procedure for Consumer Rights Protection Committee of the Board of Directors of Guangzhou Rural Commercial Bank Co., Ltd. (《廣州農村商業銀行股份有限公司董事會消費者權益保護委員會議事規則》). Secondly, the senior management complied with the Management of the Protection of the Financial Consumer Rights of Guangzhou Rural Commercial Bank (《廣州農村商業銀行金融消費者權益保護工作管理辦法》). The "Measures" required the conscientious implementation of the duties of protection of consumer rights and the promotion of related work in an orderly manner. Thirdly, the Bank set up consumer rights protection centers and special posts for jobs, and special posts to carry out all tasks for the protection of consumer rights and interests. Fourthly, the consumer protection work policy was clarified. It carried out various supervision systems for consumer rights protection work, earnestly implemented the work responsibilities of the board of directors, senior management, and institutions at all levels to promote the organizational protection, work responsibilities, business management, publicity and training, supervision and inspection, etc. Fifthly, the Bank clarified the objectives of consumer protection work. We will comprehensively improve the institutional mechanisms for the protection of consumer rights, increase consumer awareness of financial products and services, cultivate consumer awareness and ability to protect rights, and protect the legitimate rights and interests of consumers.

Management Discussion and Analysis

II. The Work of Measures for the Administration of the Protection of Financial Consumers' Rights and Interests in Guangzhou Rural Commercial Bank in 2017

Firstly, it improved the consumer rights protection system, formulated and revised the management methods for consumer rights protection work, the management of service price information disclosure, and the audit and implementation of financial knowledge publicity and education management systems, and further standardized the Bank's consumer protection work requirements as well as process.

Secondly, it strengthened product and service management. In terms of products, we carried out pre-audit of new products and services and "double-recording" work in the sales area, and set up a "Retail of Financial Products" column on the official website of the Bank. In terms of services, we provided the public with convenient facilities, provide necessary services and facilities for special groups, thoroughly investigated network security risks, and actively built rural financial service stations.

Thirdly, it strengthened the protection of personal information and clarified the management requirements for the collection, storage, and use of personal customer information.

Fourthly, it increased the initiative of publicity and education work. Through in-house training, participation in external training, setting up a financial knowledge publicity and education area, and entering schools, communities, and village communities to carry out special financial consumer activities, and constant improved the protection of employees' rights and interests in service skills and professions. These enhanced consumers' protection awareness.

Fifthly, we optimized the complaints handling process and standardization of customer services, actively promoted the use of standardized service terms and standardized service processes, achieved standardization of complaints processes, standardization of dispute resolution and standardization of external responses, and improved customer experience and satisfaction.

Sixthly, it strengthened internal supervision and management and carried out internal evaluation, internal audit and evaluation. The evaluation of the protection of consumers' rights and interests in various business organizations, business lines, and the front and back office departments of the head office were conducted to assess the management level of the Bank's consumer protection work.

Seventhly, the Bank improved emergency management capabilities, specified emergency response and emergency measures, formulated plans for emergency response drills, and organized emergency drills from time to time.

Eighthly, it implemented regulatory requirements and organize various units to carry out self-assessment of consumer rights protection, self-examination of consumer rights protection system and mechanism construction, trials of complaint classification standards, and strict implementation of various regulatory requirements.

RISK MANAGEMENT

In 2017, the Bank took a proactive approach to the new economic normal conditions in the face of complicated domestic and international economic and financial conditions, optimized its risk management framework, promoted various refinement management measures and achieved better management results. Fully implemented the system of the post of chief risk manager, strengthen the vertical management of risk; develop various types of risk management information systems and tools, effectively enhance the risk identification and management and control capabilities; risk management systems and processes are better, and all types of risks are effectively controlled within the range. It, therefore, supported the Bank's business to develop in a stable and healthy manner.

(I) Credit Risk Management

In 2017, the Bank continuously improved credit management mechanism, optimized the procedural management of policies and authorizations. Meanwhile, the Bank issued targeted measures to enhance risk management in key areas, and carried out specific collection of non-performing loans to greatly decrease non-performing loans. The major measures included:

Firstly, the Bank implemented the principle of supply-side structural reform, issued annual basic credit policy and segmented policy for key sectors, and regulated business development orientation and project entry. Secondly, the Bank optimized the credit approval authority process rules and fully implemented the risk management strategy of the head office. Thirdly, the Bank revised credit management fundamental system based on the external environment and needs of risk control, and consolidated and improved long-term risk control mechanism. Fourthly, the Bank conducted various special investigations to monitor risk status in key areas and strengthened risk management. Fifthly, the Bank put all its efforts to carry out specific collection of distressed assets, and asset quality improved significantly. Sixth, the Bank promoted the construction of risk management tools and systems. The Bank was awarded the "China's Best Credit Risk Technology Implementation of the Year" award by the "Asia Banker" in 2017 and its debt rating results have been applied to the case admission of the company's corporate credit business. The on-line credit business risk warning information system has improved the systematic level of risk monitoring. Other projects such as risk-weighted asset measurement systems, big data risk control platforms, retail intelligence, and scorecards are progressing in an orderly manner. Seventhly, efforts was made to strengthen employee business training and promoted risk control skills and risk management among employees.

(II) Market Risk Management

In 2017, the Bank continuously perfected the system for market risk, actively explored and innovated management methods, strengthened financial market research, established regulations and establish systems, strictly implemented risk limit management, strengthened daily risk monitoring and early warning, and effectively responded to risk conditions. The major measures included:

Firstly, the Bank set up overall market risk preference indicators and clarified the target for market risk management. Secondly, the Bank issued basic investment policy, guided the rational development of investment business. Thirdly, the Bank optimized the system for market risk limit management and set multi-dimensional limit indicators, such as concentration, leverage, duration, warning and stop-loss, to manage risks relating to different investment businesses. Fourthly, the Bank developed off-balance sheet business, transaction accounts and bank account classification management methods, and standardized business management. Fifthly, the Bank continuously improved the model and methods for market risk stress testing and enhanced perspective management of risk. It strengthened data monitoring and adjusted the methods for analyzing and measuring risks in light of changes in the market, and provide timely warnings and stop-loss measures.

Management Discussion and Analysis

(III) Operational Risk Management

In 2017, the Bank changed management model, enhanced internal management, and continued to advance operational risk management. The major management measures included:

Firstly, it sort out business processes, mark key points of risk control, re-examine weaknesses in business process management, formulated relevant internal control guidelines, and standardize business operations. Secondly, the Bank revised the rules and regulations for the collection of operational risk management methods, and strengthened the system management system. Thirdly, it conducted business self-check and self-correction in key areas such as electronic equipment and seal management, and improved internal control mechanisms. Fourthly, the Bank carried out the work of cracking down on illegal fund-raising publicity month and the special investigation and rectification activities involving alleged risks of illegal fund-raising in the jurisdiction of the entire government, and strengthened internal management to prevent internal and external fraud.

(IV) Liquidity Risk Management

In 2017, the Bank continued to implement liquidity risk policies and various measures for liquidity risk management, and enhanced the uniform and centralized management of liquidity risk. The major management measures included:

Firstly, the Bank ensured the management of daily capital positions, with the treasury treasurer to comprehensively arrange and allocate the capital positions for the whole Bank, and conduct timely monitoring and proper supplementation to guarantee the safety of provisions. Secondly, the Bank included the requirements for liquidity risk management into its business plan to ensure to limit the existing quality liquidity assets within a safe range. Thirdly, liquidity risk tolerance indicators approved by the board of directors at the beginning of the year. The Bank formulated limits on liquidity risk every quarter, and monitored the execution of the risk limit every month and assessed the execution every quarter to ensure the liquidity risk under control. Fourthly, the Bank monitored liquidity indicators monthly and made forward-looking predictions of liquidity indicators and gaps, and timely identified risks, and made reasonable capital arrangement. Fifthly, the Bank set up treasury trading platform to balance the earnings and losses of the Bank's assets through money market transactions from the prospective of the whole Bank. Sixth, the Bank carried out stress testing for liquidity risk quarterly to timely assess the Bank's liquidity risk tolerance and risk mitigating capability, and added stress testing during the important sensitive period to enhance the monitoring and prevention of liquidity risk on a timely basis. Seventh, it organized and implemented liquidity emergency drills to improve the Bank's ability to respond to temporary liquidity risks.

The Group calculated liquidity coverage ratio pursuant to the Regulation Governing Liquidity of Commercial Banks (Provisional) (《商業銀行流動性管理辦法(試行)》). The following tables present liquidity coverage ratio, high-quality liquid assets and net cash outflow in the next 30 days of the Group as at the end of the period.

Item Expressed in RMB million unless otherwise stated	As at December 31,	As at December 31,	As at December 31,
	2017	2016	2015
High-quality liquid assets	141,003	115,730	112,880
Net cash outflow in the next 30 days	27,322	34,669	105,727
Liquidity coverage ratio	516.07%	333.81%	106.77%

(V) Information Technology Risk Management

In 2017, taking the opportunity of carrying out the information technology compliance construction, the Bank improved the resource allocation of information technology risk management and operation of work mechanism, and continuously advanced the information technology risk management. The major management measures included:

Firstly, the Bank completed the business continuity management benchmarking and management training, formulated a bank-wide business continuity plan and system construction work guidelines, improved management effectiveness and coverage. Secondly, the Bank carried out in-depth specific assessments, and comprehensively investigated hidden risks and problems of information technology risks, and promoted the implementation of rectification in an orderly manner. Thirdly, the Bank made more efforts in response to the information security and successfully resolved the risk exposure to blackmail virus. Fourthly, the Bank strengthened emergency management of information technology and implemented the drill of real business undertaking of important information system and improved emergency response capabilities. Fifthly, the Bank stably pushed forward data center production and reconstruction and expansion of disaster recovery equipment room in the same city, to promote update iteration of the old equipment of the data center, and improved emergency assurance ability of infrastructure and important information systems.

(VI) Compliance Risk Management

Firstly, the Bank deeply organized and carried out special management such as “three-three fours” and “market chaos”, and strives to strengthen the compliance management of the business. Secondly, the Bank optimized the institutional system management platform, sort out the various systems and processes, benchmark differences, and ensured that all businesses have systems, rules, and regulations to follow. Thirdly, the Bank strengthened the authorization management, clarified the authority, and defined the authorization rules. Fourthly, the Bank effectively implemented the compliance management of the product system. Before new businesses and new products are introduced to the market, the relevant management systems and methods must undergo strict compliance review to ensure the compliance of the business.

(VII) Reputational Risk Management

Firstly, the Bank strengthened the pre-management of reputational risk. Through stressing both system monitoring and human search, the Bank paid close attention to and immediately monitored public opinion information. Secondly, the Bank established monitoring platform of public opinion, standardized the procedures for public opinion handling and improved the capabilities to handle events of reputation. Thirdly, the Bank organized specific trainings on reputational risk management. Fourthly, the Bank arranged for the deployment of special reputation risk investigations, established coordination mechanisms for supervision of public opinion and internal management, and continued to monitor public opinion for the management of positive energy. Fifthly, the Bank observed the appeals of customers, to further improve services and safeguard the interests of financial consumers.

(VIII) Anti-money Laundering Management

The Bank established a comprehensive anti-money laundering system in accordance with the Anti-money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) and the regulations promulgated by the People's Bank of China. In 2017, the Bank further enhanced the management of money laundering. First, it optimized the management system for large-value and suspicious transaction monitoring and reporting, enhanced the effectiveness of prevention and anti-money laundering activities, and secondly, established a follow-up control mechanism for suspicious transaction reports to regulate suspicious customers disposal process, to enhance the ability to manage money laundering risks. Thirdly, it is to strengthen anti-money laundering internal inspections, risk early warnings, and improve internal management capabilities. Fourthly, it is to organize the whole bank to carry out anti-money laundering knowledge training to improve the anti-money laundering personnel performance capacity. Fifthly, it is to actively perform Anti-money laundering propaganda obligations, participate in the “2017 Anti-Money Laundering in Action * Guangzhou” large-scale outdoor publicity activities, create a good anti-money laundering social atmosphere, and obtain public praise from the People's Bank of China.

Management Discussion and Analysis

INTERNAL AUDIT

The Bank has established an independent and vertical internal audit system. The Bank has an audit committee under the Board of Directors. The audit committee organizes and guides the internal audit work of the Bank based on the authorization of the Board of Directors. The internal audit department is accountable to the Board of Directors and the audit committee, and reports to the Board of Directors and its audit committee and the audit committee of the Board of Supervisors regularly, as well as, submits audit report on a timely basis and reports to the senior management. The internal audit department fully performed the audit supervisory function of the third risk defense. Through audit and evaluation, the internal audit department continued to improve the Bank's operation management, risk management, internal control and corporate governance, so as to promote the Bank to enhance operation management and curb irregularities.

During the Reporting Period, in accordance with the Bank's strategic transformation goal, the internal audit department fully implemented the audit concept of stressing both "risk control" and "supervision strengthening", adhered to the risk bottom line, vigorously promoted operation in compliance with the law, steadily pushed forward compliance inspection, and realized audit innovation. With the use of systematic and standardized audit methods, the department carried out various audit projects, enhanced the management on audit quality and strengthened the control of the audit process. These efforts promoted the overall improvement of the Bank's internal control, and the sustainable and stable development of various business segments.

Based on the risk-oriented approach, the audit department carried out specific audit on credit business, performance appraisal, centralized procurement, information security, liquidity risk, business continuity and anti-money laundering, and internal control assessment audit on the headquarters, Zhujiang Financial Leasing Co., Ltd. and the branches in various places, as well as overall business audit on controlled village and township banks. Based on audit management, the department upgraded and reformed the audit information system, strengthened risk control, and realized a paperless management of the audit process. Moreover, the department implemented a normalized and specialized construction of audit. Through sorting out business procedures, formulating audit guidance and training on audit, the department achieved the sharing of audit information and experience, and improved the quality of audit staff members.

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL

Unit: Share, %

	December 31, 2016		Change during the Reporting Period	December 31, 2017	
	Quantity	Proportion	Amount of change	Quantity	Proportion
Total share capital	8,153,418,539	100	1,654,850,000	9,808,268,539	100
Non-overseas listed shares held by legal persons	5,757,044,888	70.61	171,485,000	5,585,559,888	56.95
Including: Shares held by state-owned legal person shareholders	1,962,074,712	24.06	165,485,000	1,796,589,712	18.32
Non-overseas listed shares held by natural persons	2,396,373,651	29.39	6,000,000	2,402,373,651	24.49
Including: Shares held by internal staff members	368,751,904	4.52	1,686,304	370,438,208	3.78
Overseas listed foreign shares	0	0	1,820,335,000	1,820,335,000	18.56

Notes:

1. The Bank was listed on the Hong Kong Stock Exchange on June 20, 2017 and fully exercised the over-allotment option on July 13, 2017. The number of shares in the global offering was 1,820,335,000 H shares (including 1,654,850,000 new shares and 165,485,000 shares in sale).
2. As of the end of the Reporting period, the total number of domestic shareholders of the Bank was 29,156, and the total number of shareholders of H-shares was 110 (HKSCC Nominees Limited, as a nominee, is on behalf of several clients).
3. The state-owned legal person holds shares of non-overseas listed shares held by 14 state-owned corporate shareholders, including Guangzhou Financial Holding Group Co., Ltd. and Guangzhou Zhujiang Industrial Group Co., Ltd.

II. ISSUE, PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the Reporting period, the Bank convened the first Extraordinary General Meeting of Shareholders for 2017 on September 7, 2017 to consider and approve the proposal for public issuance of capital bonds. The Bank proposed to conduct capital bond financing, issuing foreign currency capital bonds totaling not more than RMB10 billion or equivalent for one time or more in domestic and foreign markets, depending on the Bank's capital adequacy ratio and market conditions. During the Reporting period, the Bank redeemed the subordinated bonds issued in 2012, amounting to RMB3.5 billion.

None of subsidiary of the Bank purchased, sold or redeemed any securities of the Bank.

Changes in Share Capital and Shareholders

III. SHAREHOLDERS

As of the end the Reporting Period, the total number of shares of the Bank was 9,808,268,539 shares, comprising 7,987,933,539 non-overseas listed shares and 1,820,335,000 overseas listed shares.

(I) Top Ten Shareholders

As of the end the Reporting Period, the top ten shareholders of GRCB together accounted for 41.57% of the Bank's total share capital, with no single holder of domestic shares having control of more than 5% of shares, marking a dispersed shareholding structure. Among the top ten shareholders, the largest domestic shareholder was Guangzhou Finance Holdings Group Co., Ltd., which held 3.73% of shares. The second largest shareholder was Guangzhou Pearl River Enterprises Group Co., Ltd. with 3.45% of shares, and the third largest was Guangzhou Vanlead Group Co., Ltd. with 3.26% of shares. These top three domestic shareholders are all state-owned enterprises.

The top ten shareholders are as follows:

No.	Name	Class of Shareholder	Nature of Shareholder	Stock Amount (RMB)	Shareholding Proportion (%)
1	HKSCC Nominees Limited	H Shares	Other	1,819,922,000	18.55
2	Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司)	Domestic Shares	State-owned legal person	366,099,589	3.73
3	Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司)	Domestic Shares	State-owned legal person	338,185,193	3.45
4	Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司)	Domestic Shares	State-owned legal person	319,880,672	3.26
5	Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司)	Domestic Shares	State-owned legal person	310,728,411	3.17
6	Shanghai Dazhan Investment Management Co., Ltd. (上海大展投資管理有限公司)	Domestic Shares	Non-state-owned legal person	250,000,000	2.55
7	Guangzhou Department Stores Enterprises Group (廣州百貨企業集團有限公司)	Domestic Shares	State-owned legal person	191,749,019	1.95
8	Nanjing High-tech Co., LTD. (南京高科股份有限公司)	Domestic Shares	Non-state-owned legal person	180,000,000	1.84
9	Guangdong Zhujiang Roads & Bridges Investment (廣東珠江公路橋樑投資有限公司)	Domestic Shares	Non-state-owned legal person	160,020,000	1.63
10	Guangzhou Huihua Investment Co., Ltd. (廣州匯華投資有限公司)	Domestic Shares	Non-state-owned legal person	140,010,000	1.43

Notes:

- (1) HKSCC Nominees Limited, as a nominee, held 1,819,922,000 H Shares in aggregate in the Bank on behalf of several shareholders, representing approximately 18.55% of the issued share capital of the Bank. As a member of CCASS, HKSCC Nominees Limited conducts registration and custodian business for its clients.
- (2) As of 31 December 2017, the aforesaid shareholding percentage of non-overseas listed shares is based on the total share capital of 9.8 billion shares of the Bank.
- (3) As at the end of the Reporting Period, 29,707,000 shares of the non-overseas listed shares of the Bank are involved in judicial freezing, representing 0.30% of the total share capital of the Bank.

Changes in Share Capital and Shareholders

(II) Internal Staff Member Shareholdings

As of 31 December 2017, the Bank had a total of 5,687 internal staff member shareholders, holding 370 million shares and accounting for 3.78% of the Bank's issued share capital.

(Iii) Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares under the Regulations of Hong Kong

Based on the knowledge of the directors or chief executives of the Bank, as at December 31, 2017, the following persons (other than the directors, supervisors or chief executive of the Bank) had, or were deemed or taken to have interests or short positions in the shares and underlying shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Class of shares	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Guangzhou Municipal People's Government ⁽¹⁾	Interest of a controlled corporation	Domestic Shares	Long	1,796,589,712	18.32%	22.49%
Aerial Wonder Company Limited ⁽²⁾	Beneficial owner	H Shares	Long	295,229,000	3.01%	16.22%
China Civil Aviation Investment Group Limited (中國民用航空投資集團有限公司) ⁽²⁾	Interest of a controlled corporation	H Shares	Long	295,229,000	3.01%	16.22%
HNA Aviation (Hong Kong) Holdings Co., Limited (海航航空(香港)控股有限公司) ⁽²⁾	Interest of a controlled corporation	H Shares	Long	295,229,000	3.01%	16.22%
HNA Aviation Group Co., Limited (海航航空集團有限公司) ⁽²⁾	Interest of a controlled corporation	H Shares	Long	295,229,000	3.01%	16.22%
HNA Group Co., Ltd. (海航集團有限公司) ⁽²⁾	Interest of a controlled corporation	H Shares	Long	295,229,000	3.01%	16.22%
Hainan Traffic Administration Holding Co., Ltd. (海南交管控股有限公司) ⁽²⁾	Interest of a controlled corporation	H Shares	Long	295,229,000	3.01%	16.22%
Sheng Tang Development (Yangpu) Co., Ltd. (盛唐發展(洋浦)有限公司) ⁽²⁾	Interest of a controlled corporation	H Shares	Long	295,229,000	3.01%	16.22%
Hainan Province Cihang Foundation (海南省慈航公益基金會) ⁽²⁾	Interest of a controlled corporation	H Shares	Long	295,229,000	3.01%	16.22%
Aeon Life Insurance Company Limited	Beneficial owner	H Shares	Long	295,229,000	3.01%	16.22%
Guangzhou HongHui Investment Co., Ltd	Beneficial owner	H Shares	Long	200,991,000	2.05%	11.04%
Yicheng Enterprises Co., Ltd. (益城企業有限公司)	Beneficial owner	H Shares	Long	200,991,000	2.05%	11.04%
Zeng Weipeng	Beneficial owner	H Shares	Long	114,558,840	1.17%	6.29%
Liu Feng ⁽³⁾	Beneficial owner	H Shares	Long	294,530,203	3.00%	16.18%
Good Prospect Corporation Limited ⁽³⁾	Beneficial owner	H Shares	Long	294,530,203	3.00%	16.18%
Deng Geng ⁽⁴⁾	Beneficial owner	H Shares	Long	294,554,000	3.00%	16.18%

Changes in Share Capital and Shareholders

Name of shareholder	Nature of interest	Class of shares	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
GBM Technology (HK) Limited ⁽⁴⁾	Beneficial owner	H Shares	Long	294,554,000	3.00%	16.18%
Lei Manying ⁽⁵⁾	Beneficial owner	H Shares	Long	220,517,797	2.25%	12.11%
NICE CITY ENTERPRISE LIMITED ⁽⁵⁾	Interest of a controlled corporation	H Shares	Long	220,517,797	2.25%	12.11%

Notes:

- (1) These 1,796,589,712 shares include 366,099,589 shares directly held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), 338,185,193 shares directly held by Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), 319,880,672 shares directly held by Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), 310,728,411 shares directly held by Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), 191,749,019 shares directly held by Guangzhou Department Stores Enterprises Group Co., Ltd. (廣州百貨企業集團有限公司), 137,283,914 shares directly held by Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), 45,312,844 shares directly held by Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), 33,405,752 shares directly held by Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), 18,304,522 shares directly held by Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), 9,152,261 shares directly held by Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司), 7,052,469 shares directly held by Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), 10,000,000 shares directly held by Guangzhou Hanlin International Technology Park Co., Ltd. (廣州翰林國際科技創業園有限公司), 9,152,261 shares directly held by Guangzhou Development District Industrial Development Group Co., Ltd. (廣州高新區投資集團) and 282,805 shares directly held by Guangzhou High-tech Zone Investment Group Co., Ltd. (廣州市雲埔工業區白雲實業發展總公司).

By virtue of the SFO, Guangzhou Municipal People's Government is deemed to be interested in the shares held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), Guangzhou Department Stores Enterprises Group Co., Ltd. (廣州百貨企業集團有限公司), Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司) and Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), which are directly or indirectly wholly-owned by Guangzhou Municipal People's Government, and in the shares held by Guangzhou Development District Industrial Development Group Co., Ltd. (廣州高新區投資集團) and Guangzhou High-tech Zone Investment Group Co., Ltd. (廣州市雲埔工業區白雲實業發展總公司), which are controlled by Guangzhou Municipal People's Government.

Further, Guangzhou Hanlin International Technology Park Co., Ltd. (廣州翰林國際科技創業園有限公司) is owned as to 88.23%, 7.65% and 4.12% by Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (廣州國壽城市發展產業投資企業), Guangzhou Science and Technology Innovation Investment Financial Holdings Ltd. (廣州科技金融創新投資控股有限公司) and Guangzhou Keyuan Medium and Small Enterprise Investment Operation Co., Ltd. (廣州科源中小企業投資經營有限公司). Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (廣州國壽城市發展產業投資企業) is a limited partnership and its general partner is an indirectly wholly-owned subsidiary of Guangzhou Municipal People's Government. Guangzhou Science and Technology Innovation Investment Financial Holdings Ltd. (廣州科技金融創新投資控股有限公司) is an indirectly wholly-owned subsidiary of Guangzhou Municipal People's Government. Guangzhou Keyuan Medium and Small Enterprise Investment Operation Co., Ltd. (廣州科源中小企業投資經營有限公司) is owned as to 75% by an indirectly wholly-owned subsidiary of Guangzhou Municipal People's Government. By virtue of the SFO, Guangzhou Municipal People's Government is deemed to be interested in the shares held by Guangzhou Hanlin International Technology Park Co., Ltd. (廣州翰林國際科技創業園有限公司).

- (2) Aerial Wonder Company Limited is wholly-owned by China Civil Aviation Investment Group Limited (中國民用航空投資集團有限公司) ("China Civil Aviation"), which is in turn wholly-owned by HNA Aviation (Hong Kong) Holdings Co., Limited (海航航空(香港)控股有限公司) ("HNA Hong Kong"). HNA Hong Kong is wholly-owned by HNA Aviation Group Co., Limited (海航航空集團有限公司) ("HNA Aviation"), which is in turn owned as to 75.24% by HNA Group Co., Ltd. (海航集團有限公司) ("HNA Group"). HNA Group is owned as to 70% by Hainan Traffic Administration Holding Co., Ltd. (海南交管控股有限公司) ("Hainan Traffic Administration"). Hainan Traffic Administration is owned as to 65% by Sheng Tang Development (Yangpu) Co., Ltd. (盛唐發展(洋浦)有限公司) ("Sheng Tang Yangpu"). Sheng Tang Yangpu is owned as to 65% by Hainan Province Cihang Foundation (海南省慈航公益基金會) ("Cihang"). Therefore, each of China Civil Aviation, HNA Hong Kong, HNA Aviation, HNA Group, Hainan Traffic Administration, Sheng Tang Yangpu and Cihang is deemed to be interested in the 295,229,000 shares by virtue of the SFO.
- (3) Liu Feng wholly owns Good Prospect Corporation Limited. Therefore, Liu Feng is deemed to be interested in the 294,530,203 shares by virtue of the SFO.
- (4) Deng Geng wholly owns GBM Technology (HK) Limited. Therefore, Deng Geng is deemed to be interested in the 294,554,000 shares by virtue of the SFO.
- (5) Lei Manying wholly owns NICE CITY ENTERPRISE LIMITED. Therefore, Deng Geng is deemed to be interested in the 220,517,797 shares by virtue of the SFO.

Changes in Share Capital and Shareholders

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

(IV) Major Shareholders

As of the end of the Reporting Period, there were no legal person shareholders holding 5% or more of the total share capital of the Bank, nor were there any other employees or natural persons holding 5% or more of the shares of the Bank. Guangzhou Municipal People's Government indirectly holds 18.32% of shares of the Bank through 14 legal person shareholders which are under its control, which holds 1,796,589,712 shares.

Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), Chimelong Group Co., Ltd. (廣州長隆集團有限公司), Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司), Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司) and Guangdong Zhujiang Highway Bridge Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司) delegated Li Fangjin, Zheng Shuping, Su Zhigang, Shao Jianming, Zhang Yongming, Liu Guojie and Zhu Kelin as directors of the Bank; Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司) and Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司) delegated Huang Yong, Lu Lian and Zhang Dalin as supervisors of the Bank. The above companies are major shareholders of the Bank.

IV. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE COMPANY

As at December 31 2017, based on the information available to the Bank and as far as the directors are aware, the interests or short positions of the directors, supervisors and the chief executives of the Bank in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO (including the interests or short positions which he/she was deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Directors', Chief Executives' and Supervisors' Interests in the Bank							
Name	Capacity	Nature of interest	Class of shares	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Wang Jikang	Director	Beneficial owner	Domestic Shares	Long	500,000	0.005%	0.006%
Yi Xuefei	Director	Beneficial owner	Domestic Shares	Long	500,000	0.005%	0.006%
Wu Huiqiang	Director	Beneficial owner/	Domestic Shares	Long	401,000	0.004%	0.005%
		Interest of spouse	Domestic Shares	Long	206,000	0.002%	0.003%
Su Zhigang	Director	Beneficial owner	Domestic Shares	Long	1,121,440	0.011%	0.014%
		Interest of a controlled corporation ⁽¹⁾	Domestic Shares	Long	60,020,000	0.612%	0.751%
Zhu Kelin	Director	Interest of spouse	Domestic Shares	Long	1,201,000	0.012%	0.015%

Changes in Share Capital and Shareholders

Directors', Chief Executives' and Supervisors' Interests in the Bank

Name	Capacity	Nature of interest	Class of shares	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Shao Jianming	Director	Beneficial owner/	Domestic Shares	Long	405,800	0.004%	0.005%
		Interest of a controlled corporation ⁽²⁾	Domestic Shares	Long	14,060,000	0.143%	0.176%
Zhang Yongming	Director	Beneficial owner/	Domestic Shares	Long	11,067,400	0.113%	0.139%
		Interest of a controlled corporation ⁽³⁾	Domestic Shares	Long	49,010,000	0.500%	0.689%
Liu Guojie	Director	Interest of a controlled corporation ⁽⁴⁾	Domestic Shares	Long	20,000,000	0.204%	0.250%
Lu Lian	Supervisor	Interest of a controlled corporation ⁽⁵⁾	Domestic Shares	Long	10,010,000	0.102%	0.125%
Zhang Dalin	Supervisor	Beneficial owner/	Domestic Shares	Long	1,201,000	0.012%	0.015%
		Interest of a controlled corporation ⁽⁶⁾	Domestic Shares	Long	5,000,000	0.051%	0.063%
Mao Yunshi	Supervisor	Interest of spouse	Domestic Shares	Long	1,201,000	0.012%	0.015%
Shao Baohua	Supervisor	Beneficial owner/	Domestic Shares	Long	1,201,000	0.012%	0.015%
		Interest of spouse/	Domestic Shares	Long	2,407,000	0.025%	0.030%
		Interest of a controlled corporation ⁽⁷⁾	Domestic Shares	Long	42,010,000	0.428%	0.526%

Notes:

- (1) 30,010,000 shares, 20,000,000 shares and 10,010,000 shares were held by Chimelong Group Co., Ltd., Xiangjiang Safari Park Branch (廣州長隆集團有限公司香江野生動物世界分公司), Chimelong Group Co., Ltd., Chimelong Night Safari Park Branch (廣州長隆集團有限公司長隆夜間動物世界分公司) and Chimelong Group Co., Ltd., Xiangjian Hotel Branch (廣州長隆集團有限公司香江酒店分公司), respectively, which were owned as to 87.14% by Su Zhigang, respectively. Therefore, by virtue of the SFO, Su Zhigang, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Chimelong Group Co., Ltd., Xiangjiang Safari Park Branch (廣州長隆集團有限公司香江野生動物世界分公司), Chimelong Group Co., Ltd., Chimelong Night Safari Park Branch (廣州長隆集團有限公司長隆夜間動物世界分公司) and Chimelong Group Co., Ltd., Xiangjian Hotel Branch (廣州長隆集團有限公司香江酒店分公司).
- (2) These shares were held by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), which was owned as to 65% by Shao Jianming. Therefore, by virtue of the SFO, Shao Jianming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司).
- (3) These shares were held by Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司), which was wholly-owned by Zhang Yongming. Therefore, by virtue of the SFO, Zhang Yongming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司).
- (4) These shares were held by Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司), which was owned as to 99% by Liu Guojie. Therefore, by virtue of the SFO, Liu Guojie, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司).
- (5) Among these shares, 5,010,000 shares were held by Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司), which was owned as to 99% by Lu Lian, and 5,000,000 shares were held by Guangzhou Goldvole Real Estate Co., Ltd. (廣州市金宏利置業有限公司), which was owned as to 90% by Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司). Therefore, by virtue of the SFO, Lu Lian, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司) and Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司).
- (6) These shares were held by Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司), which was owned as to 84% by Zhang Dalin. Therefore, by virtue of the SFO, Zhang Dalin, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司).
- (7) These shares were held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

Changes in Share Capital and Shareholders

Directors' Supervisors' and Chief Executives' Interests in the Associated Corporations of the Bank						
Name	Capacity	Name of associated corporation	Nature of interest	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the associated corporations
Shao Jianming	Director	Heshan Zhujiang County Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽⁸⁾	Long	15,000,000	10.00%
Lu Lian	Supervisor	Dongguan Huangjiang Zhujiang County Bank Co., Ltd. (東莞黃江珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽⁹⁾	Long	13,500,000	9.00%
		Suzhou Wuzhong Zhujiang County Bank Co., Ltd. (蘇州吳中珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽⁹⁾	Long	7,500,000	5.00%
		Xinyang Zhujiang County Bank Co., Ltd. (信陽珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽⁹⁾	Long	12,000,000	2.90%
Shao Baohua	Supervisor	Heshan Pearl River Village Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽¹⁰⁾	Long	6,500,000	4.33%

Notes:

- (8) Heshan Zhujiang County Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司) was owned as to 10.00% by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), which was owned as to 65% by Shao Jianming. Therefore, by virtue of the SFO, Shao Jianming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司).
- (9) Xinyang Zhujiang County Bank Co., Ltd. (信陽珠江村鎮銀行股份有限公司), Suzhou Wuzhong Zhujiang County Bank Co., Ltd. (蘇州吳中珠江村鎮銀行股份有限公司) and Dongguan Huangjiang Zhujiang County Bank Co., Ltd. (東莞黃江珠江村鎮銀行股份有限公司) were owned as to 2.90%, 5.00% and 9.00% by Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司), respectively, which was owned as to 99% by Lu Lian. Therefore, by virtue of the SFO, Lu Lian, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司) in Xinyang Zhujiang County Bank Co., Ltd. (信陽珠江村鎮銀行股份有限公司), Suzhou Wuzhong Zhujiang County Bank Co., Ltd. (蘇州吳中珠江村鎮銀行股份有限公司) and Dongguan Huangjiang Zhujiang County Bank Co., Ltd. (東莞黃江珠江村鎮銀行股份有限公司).
- (10) Heshan Pearl River Village Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司) was owned as to 4.33% by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

Save as disclosed above, as at December, 2017, none of the directors, supervisors and chief executives of the Bank had any interests or short positions in any shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO, or otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

V. DIVIDENDS

Upon the approval of the 2016 Annual General Meeting of the Bank, on June 21, 2017, the Bank distributed the 2016 Final Dividends to the holders of domestic shares whose names appeared on the register of members of the Bank. Such dividends were paid in cash and the dividend per share was RMB0.20 (tax included).

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Directors

Name	Gender	Month and Year of Birth	Position at the Bank	Date of Appointment ¹	Total amount of remuneration before the tax received from the Bank during the Reporting Period (RMB in ten thousand) ²
Wang Jikang	Male	1961.10	Secretary of the Party Committee and Chairman	2013.8	78.21 ³
Yi Xuefei	Male	1967.11	Deputy Secretary of the Party Committee, Vice Chairman and President	2014.5	78.21 ³
Wu Huiqiang ⁴	Male	1964.6	Director and Vice President	2014.5	70.06 ³
Liu Shaobo	Male	1961.6	Independent Director	2014.5	24.29
Liu Heng	Male	1964.1	Independent Director	2014.5	23.10
Song Guanghui	Male	1961.3	Independent Director	2014.5	39.72
Zheng Jianbiao	Male	1964.4	Independent Director	2014.5	20.76
Yung Hin Man Raymond	Male	1960.5	Independent Director	2016.9	20.75
Li Fangjin	Male	1962.1	Shareholders' Director	2014.5	6.32
Zheng Shuping	Male	1964.6	Shareholders' Director	2009.12	6.92
Su Zhigang	Male	1958.6	Shareholders' Director	2009.12	6.32
Shao Jianming	Male	1963.5	Shareholders' Director	2009.12	7.51
Zhang Yongming	Male	1972.3	Shareholders' Director	2014.5	6.92
Liu Guojian	Male	1970.12	Shareholders' Director	2016.9	6.32
Zhu Kelin	Male	1962.10	Shareholders' Director	2009.12	8.11

Directors, Supervisors, Senior Management and Employees

(II) Supervisors

Name	Gender	Month and Year of Birth	Position at the Bank	Date of Appointment ¹	Total amount of remuneration before the tax received from the Bank during the Reporting Period (RMB in ten thousand) ²
Liu Wensheng ⁴	Male	1968.9	Chairman of the Board of Supervisors, Employee Supervisor	2012.11	70.48 ³
Lu Lian	Male	1969.10	Shareholders' Supervisor	2009.12	10.46
Zhang Dalin	Male	1978.2	Shareholders' Supervisor	2014.5	9.87
Huang Yong	Male	1964.11	Shareholders' Supervisor	2014.5	10.89
Mao Yunshi	Male	1945.12	External Supervisor	2016.9	20.02
Chen Dan	Male	1966.10	External Supervisor	2016.9	9.86
Shao Baohua	Male	1969.5	External Supervisor	2014.5	11.05
Xiao Shilian	Male	1971.2	Employee Supervisor	2016.8	126.58
He Heng	Female	1970.4	Employee Supervisor	2016.8	126.29

(III) Senior Management

Name	Gender	Month and Year of Birth	Position at the Bank	Date of Appointment ¹	Total amount of remuneration before the tax received from the Bank during the Reporting Period (RMB in ten thousand) ²
Yi Xuefei	Male	1967.11	Deputy Secretary of the Party Committee, Vice Chairman and President	2013.7	78.21
Zuo Yi	Male	1963.11	Deputy Secretary of the Party Committee, Secretary to Commission for Discipline Inspection	2016.04	70.35
Chen Jianming	Male	1961.11	Vice president	2007.4	70.48
Zhang Dong	Male	1970.7	Vice president	2016.11	70.35
Peng Zhijun	Male	1968.11	Vice president	2017.08	153.78
Chen Wu ⁴	Male	1968.6	Vice president	2017.08	153.57
Wu Haifeng ⁴	Male	1977.3	Assistant to president	2013.10	200.9
Chen Linjun	Female	1972.11	Business director	2013.10	183.05
Chen Qianhong	Male	1973.12	Business director	2013.10	156.83
Yang Xuan	Female	1976.12	Business director	2015.2	187.48

Directors, Supervisors, Senior Management and Employees

Notes:

- (1) The term of office of the second session of Directors and Supervisors was expired on May 20, 2017. Because, among others, the nomination process for some of the Shareholders' Directors has not been completed and the candidates for some of the Directors were still in the process of selection, the Bank was not able to complete the election before the expiration of the second session of Board of Directors and Supervisors. Before the completion of election, the current Directors and Supervisors.
- (2) The Bank provides remuneration for Directors, Supervisors and senior management personnel based on Remuneration Management Measures of Guangzhou Rural Commercial Bank, Deferred Payment Management Measures of Guangzhou Rural Commercial Bank, Management Approach on the Remuneration of Directors and Supervisors of Guangzhou Rural Commercial Bank Co., Ltd., Measures for the Performance of Directors of Guangzhou Rural Commercial Bank Co., Ltd. (Trial) and Measures for the Performance of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd. (Trial).
- (3) Because the final remuneration for 2017 of Wang Jikang, Yi Xuefei, Wu Huiqiang, Zuo yi, Chen Jianming, Zhang Dong and Peng Zhijun shall be assessed and determined by Guangzhou SASAC, which has not been finalized for 2017 at present, the above remuneration were estimated based on the annual remuneration of 2016. For appointment less than one year, the remuneration was estimated based on the monthly salary.
- (4) As at the latest practicable date, Wu Huiqiang, Liu Wensheng, Chen Wu and Wu Haifeng has resigned.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank announced on July 21, 2017, that Mr. Wu Huiqiang resigned from the positions as executive director, vice president of the Bank and member of the Related Party Transactions and Risk Management Committee of the Board due to change of work allocation and he has submitted written resignation to the Board of the Bank, effective from July 21, 2017.

The Bank announced on February 1, 2018, that Mr. Liu Wensheng resigned from the positions as Chairman of the Board of Supervisors and Employee Supervisor of the Bank to the Board of Supervisors due to change of work allocation and he has submitted written resignation to the Board of the Bank, effective from January 31, 2018.

Chen Wu, vice president of the Bank resigned on January 31, 2018. Wu Haifeng, assistant to president of the Bank resigned on January 16, 2018.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Directors

Wang Jikang, male, was born in October 1961. He graduated from Sun Yat-sen University and obtained a doctor's degree in business administration. He obtained the qualification of senior economist. He now serves as Secretary of the Party Committee and Chairman of Guangzhou Rural Commercial Bank, a member of the 14th Congress of Guangzhou Municipal People's Congress, vice president of Guangdong Economic Institute and he is awarded the title of "Guangzhou Distinguished Expert". He once served as teacher of Henan University of Finance and Economics and Consumption Economy Research Institute of Xiangtan University; director of editorial office of South China Journal of Economics, assistant researcher of Institute of Economics with Guangdong Provincial Academy of Social Sciences; principal staff member, deputy chief with Guangzhou Branch of People's Bank of China; Assistant to President and Vice President of Guangzhou Commercial Bank; deputy secretary of the Party Committee, vice board chairman and director of Guangzhou Rural Credit Cooperative Union; Deputy Secretary of the Party Committee, Vice Chairman and President of Guangzhou Rural Commercial Bank.

Yi Xuefei, male, was born in November 1967. He graduated from Jiangxi University of Finance and Economics and obtained a master's degree in international economic and trade. He also obtained a master's degree in executive business administration and the qualification of intermediate economist. He now serves as Deputy Secretary of the Party Committee, Vice Chairman and President of Guangzhou Rural Commercial Bank. He once served as staff of Jiangxi Sanbo Electric

Directors, Supervisors, Senior Management and Employees

Machinery Group, staff member of accounting division of Second Branch of Guangzhou Branch of Construction Bank, staff member, principal staff member, deputy section chief, assistant to director and deputy director of Guangzhou Branch of Construction Bank, vice president of Foshan Branch of Construction Bank and concurrently president of Nanhai Branch, deputy secretary of the Party Committee and vice president of Dongguan Branch of Construction Bank, deputy general manager (in charge of overall works) and general manager of financial planning department of Guangdong Branch of Construction Bank, director of assets and liabilities management department and office director of restructuring of Guangdong Branch of Construction Bank, secretary of the Party Committee and president of Shantou Branch of Construction Bank, member of the Party Committee and deputy director of Guangzhou Rural Credit Cooperative Union, member of the Party Committee and vice president of Guangzhou Rural Commercial Bank.

Liu Shaobo, male, was born in June 1961. He graduated from Sun Yat-sen University and obtained a doctor's degree in management. He now serves as professor and doctoral tutor of Department of Finance of School of Economics and director of the Institute of Finance of Jinan University, an Independent Director of Guangzhou Rural Commercial Bank, decision-making consultant expert of Guangzhou Municipal People's Government, vice president of Guangdong Economic Association and vice president of Tertiary Industry Research Association of Guangdong.

Liu Heng, male, was born in January 1964. He is a Doctor of Economics with a Postdoctoral Degree in Law. He now serves as a professor and a doctoral tutor at Law School of Sun Yat-sen University, Director of the Institute of Administrative Law of Sun Yat-sen University, and an independent director of Guangzhou Rural Commercial Bank. He once served as Dean of Law School of Sun Yat-sen University and Deputy Dean of Graduate School of Sun Yat-sen University.

Song Guanghui, male, was born in March 1961. He graduated from Renmin University of China and obtained a doctor's degree in statistics. He now serves as professor and doctoral tutor in School of Business Administration of South China University of Technology and an independent director of Guangzhou Rural Commercial Bank. He once served as teaching assistant, tutor, associate professor and acting director of foreign affairs office of Henan School of Economics and Finance, vice general manager of investment banking department and general manager of research and development department of China Southern Securities Co., Ltd. (Guangzhou Branch).

Zheng Jianbiao, male, was born in April 1964. He graduated from Research Institute for Fiscal Science of the MOF and obtained a master's degree in economics. He now serves as a partner of Partner Management Committee of Grant Thornton China, a member of Expert Consultancy Committee of Merger and Restructuring of Listed Companies of CSRC and an independent director of Guangzhou Rural Commercial Bank. He once served as a cadre of the Beijing Municipal Bureau of Finance, a manager of Shenzhen Shekou Zhonghua Certified Public Accountants, a deputy director of Beijing Jingdu Public Accounting Firm, assessment expert for the First Corporate Annuity Management Agency of Ministry of Labor and Social Security and an expert member of the 9th Stock Issuance Review Committee of CSRC.

Yung Hin Man Raymond, male, was born in May 1960, a Hong Kong permanent resident. He graduated from Hong Kong Polytechnic University (Hong Kong) and obtained a bachelor's degree in accounting. He now serves as chief executive officer of L.R. Capital Group, an independent director of Guangzhou Rural Commercial Bank and an independent director of Citibank Hong Kong. He once served as a senior manager and a managing partner of finance of Arthur Andersen, accounting and internal control special advisor of the Office of the Commissioner of Banking of Hong Kong (currently known as Hong Kong Monetary Authority), managing partner of China financial services group of PricewaterhouseCoopers and a board member in regions of China, Hong Kong, Singapore and Taiwan.

Li Fangjin, male, was born in January 1962. He graduated from Capital University of Economics and Business and obtained a master's degree in finance. He now serves as secretary of the Party Committee and chairman of Guangzhou Finance Holdings Group Co., Ltd., a director of Guangzhou Rural Commercial Bank, chairman of Wanlian Securities Co., Ltd., president of Guangzhou Finance Association and supervisor of E Fund Funds Management Co., Ltd.. He once served as political counselor, secretary of student works, acting deputy secretary of the General Party Committee, deputy secretary of the General Party Committee and commissary in charge of organization, secretary of the General Party Committee (Leading roles of divisions or equivalents) and department deputy director of South China Normal University, minister of international department of Guangdong Securities Regulatory Commission, minister of international department, head and secretary of the Party Committee Branch of the first office of agency supervision, head and secretary of the Party

Directors, Supervisors, Senior Management and Employees

Committee Branch of the first office of case investigation of Guangzhou Securities Regulatory Office of China Securities Regulatory Commission, director of Guangdong Finance Institute, chairman of Guangzhou Guangyong State-owned Assets Management Co., Ltd., member of the Party Committee, general manager and vice chairman of Guangzhou Financial Holdings Group Co., Ltd., chairman of Legend Financial Leasing Co., Ltd., chairman of Guangzhou Finance Holdings Capital Management Co., Ltd., chairman of Guangdong Green Finance Investment Holding Group Co., Ltd. and independent director of Guangzhou Automobile Group Co., Ltd..

Zheng Shuping, male, born in June 1964, graduated from EMBA of Sun Yat-Sen University in 2010 with a master's degree. He now serves as secretary of the Party Committee and chairman Guangzhou Pearl River Enterprises Group Co., Ltd., chairman of Guangzhou Pearl River Industrial Development Co., Ltd. and director of Guangzhou Rural Commercial Bank. He once served as deputy director of Technical Support Division of Guangzhou Pearl River Real Estate Corporation, deputy secretary of League Committee, expert deputy secretary of League Committee and secretary of League Committee of Guangzhou Pearl River Enterprises Corporation, deputy director and deputy secretary of Guangzhou Pearl River Foreign Investment Architectural Designing Institute, director and deputy general manager of Hainan Pearl River Enterprises Holdings Co., Ltd., director and secretary of Hainan Sub-institute of Guangzhou Pearl River Foreign Investment Architectural Designing Institute, general manager of Hainan Pearl River Engineering Supervision Co., Ltd., director, deputy general manager and general manager of Guangzhou Pearl River Industrial Development Co., Ltd. and general manager, deputy general manager and vice chairman of Guangzhou Pearl River Enterprises Group Co., Ltd..

Su Zhigang, male, was born in June 1968. He now serves as chairman of Guangdong Chimelong Group Co., Ltd., director of Guangzhou Rural Commercial Bank, member of National Committee of the Political Consultative Conference, vice chairman of All-China Federation of Industry and Commerce and vice chairman of Guangdong Federation of Industry and Commerce. He once served as served as a member of the 9th and the 10th Congress of National People's Congress, vice chairman of the 10th and the 11th Session of Chinese People's Political Consultative Conference Guangzhou Committee and president of the 12th and the 13th Session of Guangzhou Federation of Industry and Commerce Executive Committee. He founded Xiangjiang Seafood Restaurant, Panyu Xiangjiang Hotel, Guangzhou Chimelong Safari Park, Guangzhou Chimelong Group, Chimelong Night Animal World, Guangzhou Chimelong Hotel, Guangzhou Chimelong Happy World, Guangzhou Chimelong Water Park, Zhuhai Chimelong Investment & Development Co., Ltd., Zhuhai Hengqin Chimelong Ocean Kingdom, Chimelong Hengqin Bay Hotel, Zhuhai Hengqin Chimelong Circus City, Zhuhai Hengqin Chimelong Penguin Hotel, Circus Hotel and Qingyuan Chimelong Investment Co., Ltd..

Shao Jianming, male, was born in May 1963. He graduated from Grenoble School of Management (France) and obtained a doctor's degree. He now serves as chairman of Guangdong Highsun Group Co., Ltd., chairman of Guangzhou Highsun Enterprises Group Corp. and director of Guangzhou Rural Commercial Bank, member of the 12th Congress of Guangdong Provincial People's Congress, member of the Standing Committee of the 15th Congress of Guangzhou Municipal People's Congress, vice chairman of the 15th Session of Chinese People's Political Consultative Conference Guangzhou Yuexiu District Committee, vice chairman of Guangzhou Federation of Industry and Commerce Executive Committee and chairman of Guangzhou Federation of Industry and Commerce and president of Guangdong Chamber of Private Enterprise. He once served as deputy manager of Guangzhou Baijia Daily Necessities Co., Ltd., manager of Highsun Wool Fabric Mall, deputy manager of Guanlv Fashion Company and chairman and general manager of Guangzhou Haiyin Business Development Co., Ltd..

Zhang Yongming, male, was born in March 1972. He graduated from China Europe International Business School and obtained a master's degree in business administration. He now serves as chairman of Beijing Tianyou Investment Co., Ltd., chairman of Aotecar New Energy Technology Co., Ltd, chairman of Nanjing Aotecar New Energy Technology Co., Ltd., chairman of Nanjing Aotecar Xiangyun Refrigerator Co., Ltd., executive director of Beijing Tianyou Innovative Investment Co., Ltd., director of YSY (Shanghai) Pharmaceutical Co., Ltd., director of Guangzhou Rural Commercial Bank, executive director of Jiangsu Tianyou Jin'gan Investment Co., Ltd., executive director and general manager of Beijing Changjiang Xingye Assets Management Co., Ltd., executive delegate of Beijing Century Tianfu Venture Capital Investment Center (Limited Partnership), chairman of Wuhan Shiji Jinyuan Pawn Co., Ltd., executive director of Tibet Tianyou Investment Co., Ltd., executive director of Tibet Xinyu Investment Co., Ltd. and executive director of Tibet Aotecar Investment Co., Ltd.. He once served as head of Beijing Xingjunshi Trading Co., Ltd., deputy general manager of Beijing Oriental Yongjia Financial Consultant Co., Ltd. and chairman of Beijing Kai Wanda Technology Co., Ltd.

Directors, Supervisors, Senior Management and Employees

Liu Guojie, male, was born in December 1970. He graduated from Guangdong Academy of Social Sciences and obtained a master's degree in economic management. He now serves as chairman and president of Guangzhou Haojin Group Co., Ltd. and director of Guangzhou Rural Commercial Bank. He once served as chairman and general manager of Zengcheng Haojin Trading Co., Ltd. and chairman and president of Guangzhou Haojin Motorcycle Co., Ltd..

Zhu Kelin, male, was born in October 1962. He graduated from Western Sydney University (Australia) and obtained a master's degree in business administration. He now serves as vice chairman of Shanghai Electric Group Company Limited and director of Guangzhou Rural Commercial Bank. He once served as financial manager, general manager and director of Guangdong Pearl River Investment Management Group Co., Ltd., director of GF Securities Co., Ltd., director of Pearl River Life Insurance Co., Ltd., vice chairman and chairman of Guangdong Zhujiang Investment Holdings Group Co., Ltd and chairman of Guangdong Pearl River Investment Co., Ltd..

2. Supervisors

Liu Wensheng, male, was born in September 1968. He graduated from Northeast Normal University and obtained a master's degree in economics and the qualification of senior economist. He is chairman of the Board of Supervisors of Guangzhou Rural Commercial Bank. He was once in charge of fund transfer and integrated text of planning division of Changchun People's Square Branch of China Construction Bank and foreign exchange project financing and integrated text of international business department of Changchun Branch of China Construction Bank. He once served as assistant to president and vice President (responsible for the operation of the Branch) of Changchun Chaoyang Su-branch of China Construction Bank, president and chairman of the board of supervisors of the Tianhe Sub-branch of Guangzhou Commercial Bank, general manager of Credit Review Department and assistant to president of Guangzhou Commercial Bank, leader of preparation team of Shenzhen Branch and president of Shenzhen Branch of Guangzhou Commercial Bank.

Xiao Shilian, male, was born in February 1971. He graduated from Sun Yat-sen University and obtained a doctor's degree in management and the qualification of CPA and international internal auditor. He now serves as Employee Supervisor and general manager of finance and performance management department of Guangzhou Rural Commercial Bank, as well as chief financial officer of Zhujiang Financial Leasing Co., Ltd.. He once served as staff officer of investigation division, deputy chief staff officer and chief staff officer of Guangzhou Customs, senior tax consultant of the tax department of Deloitte Touche Tohmatsu, manager of Guangzhou office of PricewaterhouseCoopers International Trade Consulting (Shanghai) Limited, senior manager of tax department of Guangzhou office of Ernst & Young (China) Enterprise Advisory Limited, deputy general manager of Financial Planning Department, deputy general manager (responsible for the operations), chief senior manager of finance and accounting department and person-in-charge of management accounting system project team of Guangzhou Rural Commercial Bank, assistant to president and chief financial officer of Zhujiang Financial Leasing Co., Ltd..

He Heng, female, was born in April 1970. She graduated from Hunan Institute of Economics and Finance and obtained a master's degree in economics and the qualification of economist. She now serves as Employee Supervisor and general manager of rural financial restructuring office of Guangzhou Rural Commercial Bank. She once served as teacher of information management department of Xiangtan University, staff member and deputy principal staff member of operation supervision division of PBOC Guangzhou Branch, principal staff member of foreign bank and other financial institutions supervision department of PBOC Guangzhou Branch, principal staff member, assistant consultant and deputy chief of policy and regulation section, deputy chief of business innovation supervision and cooperation section (responsible for the overall works) of CBRC Guangdong Office, deputy general manager of risk management department and credit management department (secondment position) of Guangdong Branch of Industrial and Commercial Bank of China, assistant to president of Zhujiang Financial Leasing Co., Ltd., general manager of performance management department and chief senior manager of investment and institution management of Guangzhou Rural Commercial Bank.

Huang Yong, male, was born in November 1964. He graduated from Beijing Jiaotong University and obtained a doctor's degree in transportation planning and management. He now serves as deputy secretary of the Party Committee, vice chairman and general manager of Guangzhou Vanlead Group Co., Ltd. and supervisor of Guangzhou Rural Commercial

Directors, Supervisors, Senior Management and Employees

Bank. He once served as cadre, deputy chief staff member and assistant to director of the safety and quality department of Guangzhou Port Authority, assistant to general manager of Hainan Port Group Corporation, secretary of the General Party Committee, vice general manager (responsible for administrative work) and general manager, manager and general manager of Guangzhou Port Xinsha Stevedoring Co., Ltd., assistant to general manager and deputy general manager of Guangzhou Port Group Co., Ltd., deputy secretary of the Party Committee, vice chairman and general manager of Guangzhou International Group Co., Ltd..

Lu Lian, male, was born in October 1969. He graduated from Sun Yat-sen University at associate's level, majoring in operational management (correspondence education). He now serves as general manager of Guangzhou Goldvole Estate Co. Ltd., chairman of Guangdong Hujing Jinge Food Co., Ltd., chairman of Guangdong Hujing Jinge Food Co., Ltd. and supervisor of Guangzhou Rural Commercial Bank.

Zhang Dalin, male, was born in February 1978. He graduated from Preston University and obtained a doctoral degree in business administration. He now serves as chairman of Guangzhou Fengle Fuel Co., Ltd., member of the 13th Congress of Guangdong People's Congress, member of the 15th Congress of Guangzhou Municipal People's Congress, member of the 2nd Session of Chinese People's Political Consultative Conference Guangzhou Zengcheng District Committee, chairman of Industry and Commerce Federation (General Chamber of Commerce) of Guangzhou Zengcheng and supervisor of Guangzhou Rural Commercial Bank. He once served as vice chairman of the China Energy Association, deputy general manager of Guangdong Nanfeng Automobile Club Co., Ltd., executive director and general manager of Guangdong Zhengpeng Energy Technology Co., Ltd. and honorary president of Fengle Business School.

Mao Yunshi, male, was born in December 1945. He obtained a doctor's degree in world economics from Wuhan University and a master's degree in business administration from Catholic University of Leuven (Belgium). He now serves as professor and doctoral tutor of School of Management of Sun Yat-sen University and director of Enterprise and Market Research Center of Sun Yat-sen University, DBA tutor of GLebel Business School (France), independent director of China Resources Sanjiu Medical & Pharmaceutical Co., Ltd., independent director of Guangxi Beibu Gulf Bank Co., Ltd., supervisor of Guangzhou Rural Commercial Bank, external director of Guangzhou Construction Group, external director of Foshan Public Holdings Co., Ltd., editor of Journal of Management Science, Academic Research and Zhongshan Management Review (Taiwan). He once served as associate professor of department of economics and management, associate director of the teaching and research office, department deputy director, professor and deputy dean of the school of management of Wuhan University, dean of the school of management of Sun Yat-Sen University, member of the Guangdong Provincial Degree Committee, member of the Discipline Review Group on Business Administration of Academic Degrees Committee of State Council, member of Discipline Review Group on Management of National Natural Science Foundation of China, member of the Standing Committee of the Guangdong Provincial People's Political Consultative Conference, and Counsellor of Guangdong Provincial People's Government.

Chen Dan, male, was born in October 1966. He graduated from National University of Singapore (Singapore) and obtained a master's degree in business administration. He now serves as chairman of Guangdong Evergreen Conglomerate Co., Ltd., chairman of Guangdong Evergreen Feed Industry Co., Ltd., honorary president of Guangdong Provincial Chamber of Commerce, vice chairman of the 13th Session of Chinese People's Political Consultative Conference Zhanjiang Committee and supervisor of Guangzhou Rural Commercial Bank. He once served as member of the 10th, 11th and 12th Congress of National People's Congress, member of the Standing Committee of the 11th and 12th Congress of Guangdong Provincial People's Congress, standing member of National Federation of Industry and Commerce, member of the 9th Session of Chinese People's Political Consultative Conference Zhanjiang Committee and vice chairman of the 10th, 11th and 12th Session of Chinese People's Political Consultative Conference Zhanjiang Committee.

Shao Baohua, male, was born in May 1969. He graduated from Jinan University and obtained a doctor's degree in international relation. He now serves as chairman of Guangzhou College of Technology and Business, supervisor of Guangzhou Rural Commercial Bank, chairman of Guangzhou Huadu Huanyang Trading Company, member of the 9th Session of Chinese People's Political Consultative Conference Guangzhou Huadu District Committee, member of the 15th Congress of People's Congress of Guangzhou Huadu District, member of the standing committee of Guangzhou Youth Federation, vice president and director of the Guangzhou Branch of the Alumni Association of Peking University Institute of International Relations and member of the 14 th Congress of People's Congress of Guangzhou. He once served as teacher of Huadu Xinhua Songbai Primary School of Guangzhou, executive director of Guangzhou Huadu Huanyang Trading Company and principal of Guangzhou Huadu Huanyang School of Commerce.

Directors, Supervisors, Senior Management and Employees

3. Senior Management

Yi Xuefei, please refer to the director section of “III. Biographies of Directors, Supervisors and Senior Management” in this section.

Zuo Yi, male, was born in November 1963. He graduated from Military Economics Institute of Chinese People’s Liberation Army and obtained the qualification of senior accountant. He now serves as deputy secretary of the Party Committee and secretary to Commission for Discipline Inspection of Guangzhou Rural Commercial Bank. He once served as deputy researcher of Commission for Discipline Inspection and Supervision Office of Guangzhou Municipal Bureau of Finance, deputy director (assistant division grade) of Guangzhou Municipal Discipline Inspection Committee of the Communist Party of China and anti-malpractice office of Guangzhou Municipal Supervision Bureau, deputy director (division grade) of Guangzhou Municipal Discipline Inspection Committee of the Communist Party of China and party honesty office and anti-malpractice office of Guangzhou Municipal Supervision Bureau, deputy director (division grade) and director (division grade) of Guangzhou Municipal Discipline Inspection Committee of the Communist Party of China and office for supervision of party and government morality of Guangzhou Municipal Supervision Bureau.

Chen Jianming, male, was born in November 1961. He graduated from Sun Yat-sen University and obtained a master’s degree and the qualification of economist. He now serves as vice president of Guangzhou Rural Commercial Bank. He once served as deputy sector chief and sector chief of PBOC Panyu Sub-branch; chief (secondment position) of Panyu Urban Credit Union; vice president of Panyu Sub-branch and vice president of SAFE Panyu Sub-branch; deputy director of Guangzhou Panyu Rural Credit Cooperative Union; director of Guangzhou Panyu Rural Credit Cooperative Union; assistant to director of Guangzhou Rural Credit Cooperative and secretary of the Party Committee and director of Panyu Credit Cooperative; assistant to director of Guangzhou Rural Credit Cooperative and secretary of the Party Committee of Panyu Credit Cooperative; member of the Party Committee and deputy director of Panyu Credit Cooperative.

Zhang Dong, male, was born in July 1970. He graduated from South China Agricultural University and obtained a doctor’s degree and the qualification of senior economist. He now serves as vice president of Guangzhou Rural Commercial Bank and chairman of Zhujiang Financial Leasing Co., Ltd.. He once served as staff member and deputy chief of Personnel Bureau of Dongshan District of Guangzhou, deputy chief, chief, assistant to general manager, deputy general manager and general manager of Human Resources Department (Party-Mass Supervision Department) of Guangzhou Branch of CITIC Bank, deputy director of personnel education division of Food and Drug Administration of Guangdong, deputy general manager (person-in-charge) of office of Guangzhou Rural Credit Cooperative, general manager of office and general manager of administration department and general manager of Human Resources Department (Party-Mass Supervision Department) of Guangzhou Rural Credit Cooperative, chairman and secretary of the Party Committee of Xinyang Zhujiang County Bank Co., secretary to commission for discipline inspection of Guangzhou Lingnan International Enterprise Group Co., Ltd. and chairman of the board of supervisors of Guangzhou Lingnan Group Holdings Company Limited.

Peng Zhijun, male, was born in November 1968. He graduated from Wuhan University and obtained a doctor’s degree and the qualification of senior economist. He now serves as vice president and chief risk officer of Guangzhou Rural Commercial Bank. He once served as deputy director of the Finance Department of Guangzhou Finance College; deputy director of Guangzhou Branch Office, vice president of Quzhuang Branch, president of Shuiyin Branch of Shenzhen Development Bank; deputy general manager of development and research department, general manager of office of Guangzhou Rural Credit Cooperative, deputy director (person-in-charge) of Zengcheng Credit Cooperative of Guangzhou Rural Credit Cooperative; president of Zengcheng Sub-branch and president of Conghua Sub-branch of Guangzhou Rural Commercial Bank; assistant to director (secondment position) of cooperation financial institution supervision department of CBRC.

Chen Wu, male, was born in June 1968. He graduated from Sun Yat-sen University and obtained a master’s degree in law and the qualification of economist. He now serves as vice president and chief financial officer of Guangzhou Rural Commercial Bank and chairman of board of supervisors of Zhujiang Financial Leasing Co., Ltd.. He once served as cadre and deputy section chief of supervisory commissioner’s office of financial system discipline inspection team of Guangdong, deputy section chief of banking management department and deputy section chief of No. 2 supervision department, section chief of No. 2 banking supervision department of Guangzhou office, deputy chief of joint-stock commercial bank supervision department, deputy chief of city commercial bank supervision department of PBOC Guangdong Branch, person-in-charge (responsible of the overall works) of city commercial banks supervision department, vice president and president of Zhaoqing

Directors, Supervisors, Senior Management and Employees

banking regulatory branch, chief of non-bank financial institutions regulation department, chief of finance and accounting department and chief of small and medium rural financial institutions regulation department of CBRC Guangdong Office.

Wu Haifeng, male, was born in March 1977. He graduated from Sun Yat-sen University and obtained a doctor's degree in law and the qualification of assistant economist. He now serves as assistant to president of Guangzhou Rural Commercial Bank and director and president of Zhujiang Financial Leasing Co., Ltd.. He once served as manager of corporate business department, deputy general manager (responsible for the operations) of financial department, deputy general manager (responsible for the operations) of No. 6 corporate department and president of Haizhu Sub-branch of Industrial Bank Co., Ltd. Guangzhou Branch; general manager of asset management department of Guangzhou Rural Credit Cooperative, deputy director (person-in-charge) and director of Luogang Credit Cooperative of Guangzhou Rural Credit Cooperative, president of Huadu Sub-branch, president of Panyu Sub-branch, president of Yangcheng Sub-branch and general manager of Real Estate Finance Business Department and executive president of Corporate Finance Department of Guangzhou Rural Commercial Bank.

Chen Linjun, female, was born in November 1972. She graduated from China Central Radio and TV University at bachelor's level and obtained the qualification of assistant economist. She now serves as business director of Guangzhou Rural Commercial Bank. She once served as system administrator of computer management department, deputy section chief (responsible of the operations) of accounting department of Huangpu Sub-branch of Guangzhou Branch of China Construction Bank Corporation; assistant to general manager of business operations center of Guangzhou Branch of China Construction Bank Corporation; deputy general manager (responsible of the operations) of accounting management department of Guangzhou Rural Credit Cooperative; general manager of Operational Management Department, general manager of Operational Management Department, general manager of E-banking Department and person-in-charge of E-commerce and Process Bank Project Team of Guangzhou Rural Commercial Bank.

Chen Qianhong, male, was born in December 1973. He graduated from Peking University and obtained a master's degree and the qualification of senior economist. He now serves as business director of Guangzhou Rural Commercial Bank. He once served as staff member of office of Party Committee and fund manager of planning office of Henan Branch of Industrial and Commercial Bank of China; general manager of fund planning department of Zhengzhou Huaxin Branch of Industrial and Commercial Bank of China; general manager of capital operation department of business department of Henan Branch of Industrial and Commercial Bank of China, general manager (assistant division grade) of risk management department of business department of Henan Branch of Industrial and Commercial Bank of China; president of Tianjin Park Sub-branch of Bank of Communications Co., Ltd.; general manager of Fund Business Department, general manager of Financial Market Business Department (Investment Banking and Real Estate Business Department), and general manager of Asset Management Center, deputy general manager of Non-local Business Management Department of Guangzhou Rural Commercial Bank.

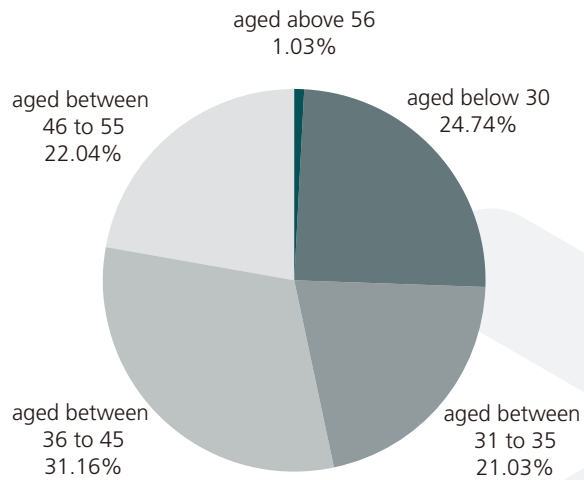
Yang Xuan, female, was born in December 1976. She graduated from Shanghai University of Finance and Economics and obtained a master's degree and the qualification of economist. She now serves as business director of Guangzhou Rural Commercial Bank. She once served as credit staff of credit planning department and deputy manager of legal office, deputy manager of asset security department, manager of marketing department of operation center of Guangzhou Tianhe Rural Credit Cooperative Union; deputy general manager of corporate business department, general manager of compliance and risk department of Guangzhou Rural Credit Cooperative; general manager of Corporate Financial Department, general manager of International Business Department of Guangzhou Rural Commercial Bank Corporation and general manager of Corporate Financial Department of the Company, deputy general manager of Guangzhou Region Business Management Department, vice president and executive president of Corporate Financial Management Department and general manager of Guangzhou Region Business Management Department.

Directors, Supervisors, Senior Management and Employees

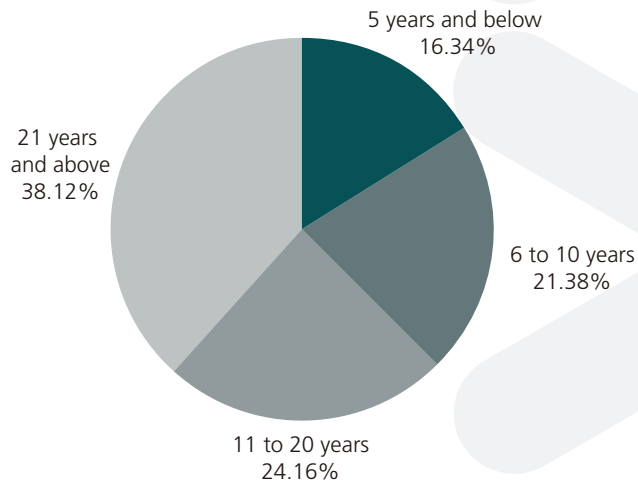
IV. EMPLOYEES

As of the end of 2017, the Bank had 7,778 employees.

Categorized by age: there were 1,924 people aged below 30, accounting for 24.74%; 1,636 people aged between 31 to 35, accounting for 21.03%; 2,424 people aged between 36 to 45, accounting for 31.16%; 1,714 people aged between 46 to 55, accounting for 22.04%; 80 people aged above 56, accounting for 1.03%.

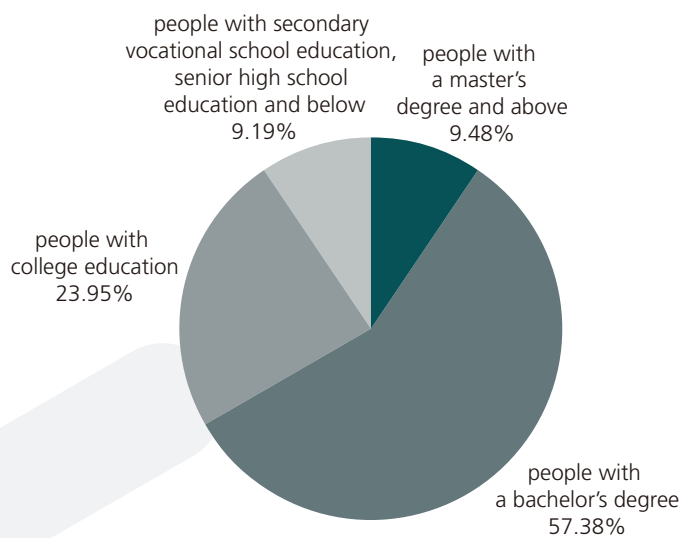


Categorized by years of employment: there were 1,271 people with 5 years and below, accounting for 16.34%; 1,663 people with 6 to 10 years, accounting for 21.38%; 1,879 people with 11 to 20 years, accounting for 24.16%; 2,965 people with 21 years and above, accounting for 38.12%.

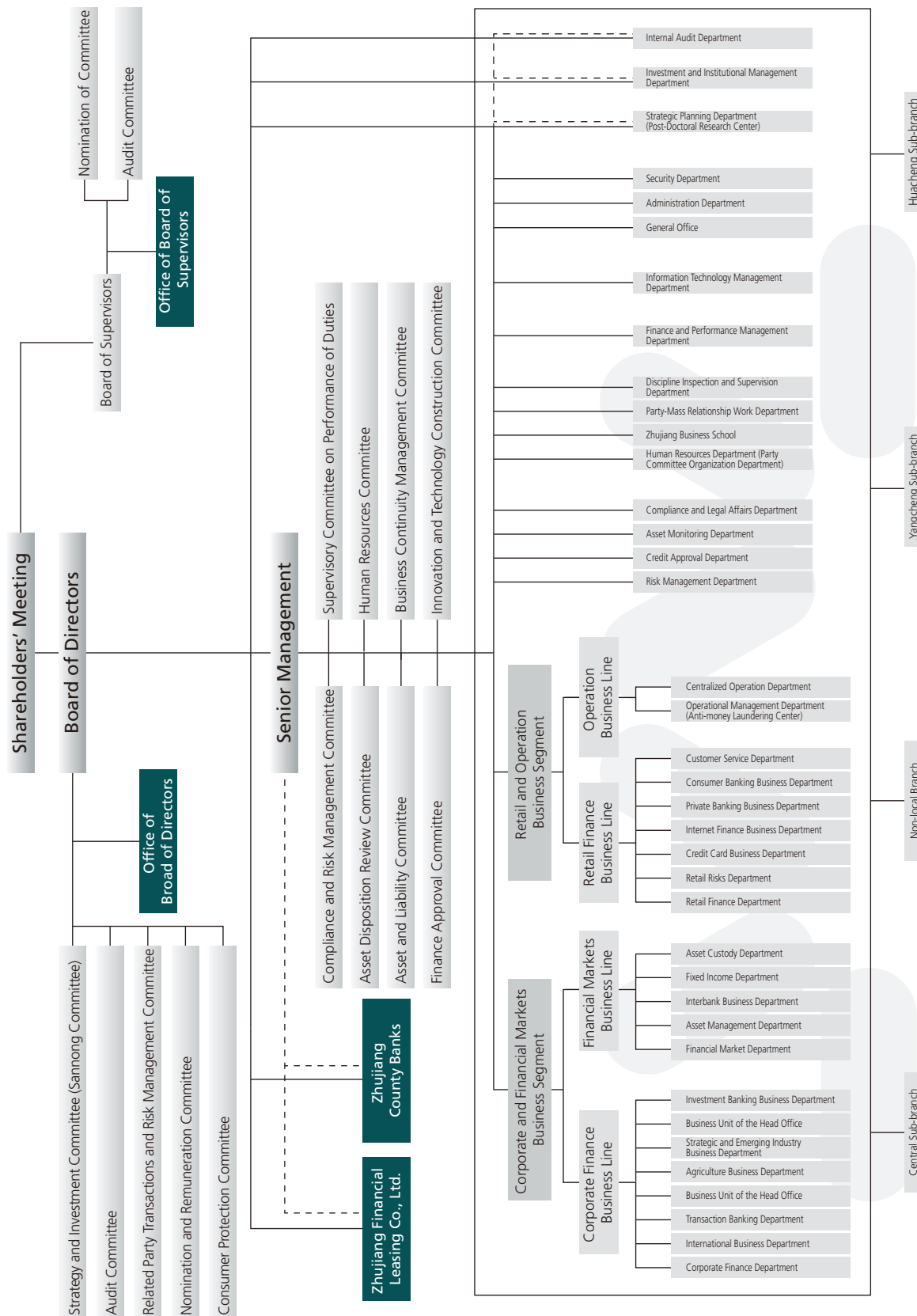


Directors, Supervisors, Senior Management and Employees

Categorized by academic qualifications: there were 737 people with a master's degree and above, accounting for 9.48%; 4,463 people with a bachelor's degree, accounting for 57.38%; 1,863 people with college education, accounting for 23.95%; 715 people with secondary vocational school education, senior high school education and below, accounting for 9.19%.



I. CORPORATE STRUCTURE



II. CORPORATE GOVERNANCE OVERVIEW

The Bank continued to improve the standardization of corporate governance to ensure that it meets the corporate governance standards of listed companies. This aimed to safeguard the interests of stakeholders and enhanced corporate value.

The Bank had strictly complied with the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules, and had also followed most of the best recommended practices contained in the Corporate Governance Code. The Bank has also strictly complied with the management of insider information required by the relevant laws and regulations and the Hong Kong Listing Rules. The corporate governance of the Bank abided strictly with the Company Law, the Securities Law and each requirement by China Securities Regulatory Commission and Hong Kong Stock Exchange.

To the best of the directors' of the Bank knowledge, there is no reasonable statistic indicating that the Bank is or was in violation of the CG Code during the year ended 31 December 2017.

The Bank will continue to review and enhance its corporate governance to ensure that it will continue to meet the requirements of the CG Code and the rising expectations of shareholders and investors.

III. GENERAL MEETING

The Bank convened two general meetings during 2017, namely, 2016 Annual General Meeting and 2017 First Extraordinary General Meeting of the Bank. The Details are as follows:

On April 25, 2017, the Bank convened 2016 Annual General Meeting, which mainly reviewed and passed 9 resolutions, namely, the 2016 Work Report of the Board of Directors, the 2016 Work Report of the Board of Supervisors, the 2016 Annual Audit Report on Financial Statements, the 2016 Annual Report on Final Accounts, the 2016 Profit Distribution Proposals, the 2016 Annual Report and the 2017 Annual Financial Budgets. The convening of this General Meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, 6 of the then Directors of the Bank, namely, Mr. Wang Jikang and Mr. Wu Huiqiang, Executive Directors of the Bank, Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui and Mr. Yung Hin Man Raymond, Independent Non-Executive Directors of the Bank, attended the 2016 Annual General Meeting.

On September 11, 2017, the Bank convened 2017 First Extraordinary General Meeting, which mainly reviewed and passed 3 resolutions, namely, the amendments to the Articles of Association, the amendments to the Rules of Procedure for the Board of Directors and the issuance of capital bonds. The convening of this General Meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, 4 of the then Directors of the Bank, namely, Mr. Wang Jikang, Executive Director of the Bank, Mr. Liu Shaobo, Mr. Liu Heng and Mr. Song Guanghui, Independent Non-Executive Directors of the Bank, attended the 2017 First Extraordinary General Meeting.

IV. BOARD OF DIRECTORS

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

During 2017, the Board of Directors strictly implemented the resolutions passed at the 2016 General Meeting and conscientiously implemented various proposals reviewed and passed at the General Meeting.

(II) Board Composition

As at the end of the Reporting Period, the Board of Directors comprised a total of 14 Directors, including three executive Directors, namely Mr. Wang Jikang (Chairman) and Mr. Yi Xuefei (Vice Chairman and President); seven non-executive Directors, namely Mr. Li Fangjin, Mr. Zheng Shuping, Mr. Su Zhigang, Mr. Shao Jianming, Mr. Zhang Yongming, Mr. Liu Guojie and Mr. Zhu Kelin; and five independent non-executive Directors, namely Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond. Among them, two independent non-executive Directors, namely Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond have accounting or related financial experience as stipulated under Rule 3.10(2) of the Listing Rules.

Each term of office of a Director of the Bank (including non-executive Directors) is three years and he/she may serve consecutive terms if re-elected. Upon expiry of the office term of three years, an independent non-executive Director shall be eligible for re-election and reappointment as independent non-executive Director of the Bank. An independent non-executive Director shall serve in the Bank for no more than a cumulative period of six years.

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

(III) Diversification policies of the Board of Directors

The Bank believed that a diversified Board of Directors will be beneficial to enhance the Bank's performance. The Bank considers the increasing diversification at the level of Board of Directors as a key factor in achieving sustainable development, supporting its achievement of strategic objectives and maintaining good corporate governance.

In setting the composition of the Board of Directors, the Bank will consider the diversification of members of the Board of Directors from various aspects, including but not limited to, gender, aspect and industry experience, skills, knowledge and educational background. All appointments to the Board of Directors shall follow the principle of meritocracy, taking into account objectively the benefits of diversification of members of the Board of Directors when considering the candidates.

Selection of candidate to the Board of Directors will be based on a series of diversified scope, including but not limited to, gender, aspect and industry experience, skills, knowledge and educational background.

The Nomination Committee will review the policy in due time to ensure its effectiveness in performance. The Nomination Committee will discuss any possible amendments needed, and offer the advice on amendments to the Board of Directors for its consideration and approval.

(IV) Changes in Board Members

For changes in the Directors, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" of this Annual Report.

(V) Chairman and President

The positions of Chairman and President of the Bank are held by separate persons in accordance with the requirements of Hong Kong Listing Rules. Mr. Wang Jikang, as the Chairman of the Bank, performs the following duties: to preside over the general meetings, and convene and preside over meetings of the Board of Directors; and to supervise and examine the implementation of resolutions of the Board of Directors, etc.. Mr. Yi Xuefei, as President of the Bank, performs the following duties: to manage the business operation of the Bank; and to report to the Board of Directors, etc..

(VI) The operation of the Board of Directors

The Board of Directors convenes regular meetings, generally no fewer than four times a year; extraordinary meetings are convened if and when necessary. Board meetings may be convened by means of on-site conference or written resolutions. The agenda for regular board meetings is scheduled upon consultation with each director. Board meeting papers and relevant materials are usually circulated to all directors and supervisors 14 days in advance of board meetings. All directors keep contact with the office of Board of Directors, to ensure compliance with board procedures and all applicable rules and regulations.

Detailed minutes of Board meetings are maintained and are available for all Directors for their review, comments and signature after the conclusion of such meeting. The finalized minutes of Board meetings will be sent to all Directors as soon as possible. The minutes of Board meetings are kept according to the file management regulations of the Bank and are available for inspection by Directors at any time.

Corporate Governance Report

A good communication and reporting mechanism has been established among the Board of Directors, Directors and senior management of the Bank. The President and chief executives report regularly to and is overseen by the Board of Directors. Relevant members of 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 shall abstain from discussion and voting at a Board meeting on any proposal in which he is materially interested, and shall not be counted in the quorum for such proposal.

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

(VII) Duties of the Board of Directors

The Board of Directors is responsible for formulating the corporate governance system and monitoring the Group's business and financial strategy decisions and performance and reporting to the Shareholders at the general meeting. The Board of Directors has conferred the rights and duties of the Group's governance to the management. In addition, the Group has assigned the respective responsibilities to the Strategy and Investment Committee (Sannong Committee), Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Consumer Protection Committee. The details of the above committees set out in this Report.

The Board of Directors is also responsible for performing corporate governance functions. During the year ended December 31, 2017, the Board has fulfilled its corporate governance functions as set out in Article D.3.1 of the Corporate Governance Code.

According to the provisions of Articles of Association, the Board of Directors assumes the ultimate responsibility for the Bank's operations and management and exercises the following duties and powers according to law:

- To convene shareholders' general meetings and report its work to the shareholders' general meetings;
- To implement the resolutions of the shareholders' general meetings;
- To formulate the development strategy of the Bank, and its specific development strategies in green credit, financial innovation and protection of consumers' interests and supervise the implementation of the said strategies, and to decide on the business plans and investment plans of the Bank;
- To prepare the annual financial budgets and final accounts of the Bank;
- To prepare the venture capital distribution plan, profit distribution plan and the plan for making up the losses of the Bank;
- To formulate the capital planning and take ultimate responsibility for capital management, to set appropriate capital adequacy target, to approve and supervise the implementation of the assessment procedure for capital adequacy and capital planning, to approve capital management system and the policies, procedure and contents of the information disclosure policy regarding capital adequacy, and to consider the management plan for capital adequacy ratio and the relevant management and assessment reports and audit reports;
- To prepare plans for the Bank's material acquisitions and acquisitions for the Bank's shares, merger, division, dissolution or liquidation or alteration of corporate form of the Bank;
- To approve, other than daily operation of the Bank, the acquisitions, external investments, purchase and disposal and pledge and writing down of assets, external guarantees, entrustments of others to manage the Bank's funds or other assets of the Bank, except for material matters regulated in the Articles of Association, which shall be decided by the shareholders' general meeting;

- To approve material related party transactions of the Bank, unless otherwise regulated in the Articles of Association;
- To decide on the establishment of internal management structure of the Bank;
- To formulate the basic management system of the Bank;
- To take the ultimate responsibility for specific risk management of the Bank such as the comprehensive risk management, reputation risk management, liquidity risk management and management of consolidated financial statements; to develop risk management culture, set appropriate risk preference, formulate the comprehensive risk management policy of the Bank, consider the comprehensive risk management report and internal audit report; and to formulate risk management strategies, policies and procedures for risk tolerance, internal control, reputation risk management, liquidity risk management, financial innovation risk management and fraud risk management, supervise the performance of duties by senior management in respect of risk management, receive relevant risk reports on a regular basis and approve the contents of the relevant risk information for disclosure.
- To prepare any amendment proposals to the Articles of Association;
- To formulate information disclosure system of the Bank and take the ultimate responsibilities for the truthfulness, accuracy, completeness and timeliness of financial statements and accounting reports of the Bank;
- To formulate a chief officer accountability system in respect of operation and management and the chief officers shall be required to report to the Board of Directors and regularly report their work to the Board of Directors and Directors;
- To decide on the appointment, removal and remuneration of the President, the chief officer and the secretary to the Board of Directors based on the proposals of the Chairman; to decide on the appointment or removal of the vice president, the assistant to the president, the business director and other senior management based on the proposals of the President and the remuneration thereof;
- To determine the job responsibilities for any manager, including the President, the Vice President, the chief officer, the assistant to president, the secretary to the Board of Directors and the business directors;
- To monitor and ensure the performance of senior management and ensure their effective performance;
- To receive the work report from the president and inspect the work of the President. The President shall be responsible to manage the business operation of the Bank including the administrative management and other duties in relation to the financial, human resources, risks and other fields of the business operation and report the work to the Board of Directors;
- The Board of Directors shall establish a supervisory system for the management to formulate the code of conduct and terms of reference for management and business officers and that the normative documents shall specifically require employees at all levels to report any potential conflict of interests in a timely manner, provide particular rules and establish corresponding mechanisms;
- The Board of Directors shall establish a reporting system and require the senior management to report to the Board of Directors and Directors the operation and management issues of the Bank, and the reporting system shall cover provisions for the content of the information reported to the Board of Directors and Directors, the minimum reporting standards, the reporting method and frequency;
- To evaluate and refine the corporate governance of the Bank on a regular basis;
- To protect the legitimate interests of depositors and other interested parties;
- To establish the mechanism for identification, verification and management of the conflict of interest between the Bank and shareholders, in particular Substantial Shareholders;
- To take the ultimate responsibility for the compliance of the operation of the Bank, to formulate the compliance policy of the Bank and supervise the implementation of such policy, to hear the compliance plan and compliance risk management report on a regular basis, to consider the annual report and to establish appropriate supporting measures such as compliance performance assessment;
- To take the ultimate responsibility for the consumers' interests protection and the independence and effectiveness of the internal audit of consumers' interests protection of the Bank, and to formulate strategy, policy and targets in respect of the consumers' interests protection and supervise the implementation of the same by the senior management;

Corporate Governance Report

- to exercise any other duties and power conferred by laws, regulations provisions and the Articles of Association.

(VIII) Board Meetings

During the Reporting Period, the Bank convened 16 board meetings (including communication meetings) in total (including four on-site meetings and 12 communication meetings), at which 83 proposals were considered and approved on the matters mainly including the 2016 Annual Report and the 2017 Interim Report.

The list of directors participating in the meetings is as follows Attendance/meetings convened.

	Director	Decision-making Board meetings	Meetings of Strategy and Investment Committee (Sannong Committee)	Meetings of Related Party Transactions and Risk Management Committee	Meetings of Audit Committee	Meetings of Consumer Protection Committee	Meetings of Nomination and Remuneration Committee
Executive Directors	Wang Jikang	16/16	3/3	–	–	–	–
	Yi Xuefei	16/16	3/3	–	–	–	–
Independent Directors	Song Guanghui	16/16	3/3	11/11	–	–	3/3
	Zheng Jianbiao	16/16	3/3	–	5/5	–	3/3
	Liu Heng	16/16	3/3	11/11	5/5	3/3	–
	Liu Shaobo	16/16	3/3	–	–	3/3	3/3
	Yung Hin Man Raymond	1/16	–	–	0/5	–	3/3
	Shareholders' Directors	Su Zhigang	16/16	3/3	–	–	3/3
	Shao Jianming	16/16	3/3	11/11	–	–	–
	Liu Guojie	1/16	–	0/11	–	2/3	–
	Zheng Shuping	16/16	3/3	–	–	3/3	–
	Zhang Yongming	16/16	3/3	–	–	–	3/3
	Li Fangjin	16/16	–	11/11	5/5	–	–
	Zhu Kelin	16/16	–	11/11	5/5	–	–

Notes:

- Directors who did not attend in person but appointed other Directors to attend the meetings on their behalf, and Directors who abstained from voting on related party transactions, were deemed to attend the meetings.
- Two Directors, Yung Hin Man Raymond and Liu Guojie, whose qualifications were reviewed and approved by Guangdong Regulatory Bureau of the China Banking Regulatory Commission, began to perform their duties as a director on December 25, 2017. After such date, they shall attend one Board meeting.

(IX) Continuous Professional Development Program for Directors

During the Reporting Period, the Board of Directors organized independent non-executive Directors to hold seminars on agriculture, farmer and rural area in Nansha and Huadu. They conducted on-site investigations in Hunan and other places to understand the implementation of financial institutions in terms of management, strategy execution and risk control, and urged the institutions to improve their levels of operation management, enhance risk awareness and abilities of risk controls, and provide them with independent and objective advice on the operation management.

The Bank pays attention to the continuous training of the Directors to ensure that all Directors have a proper understanding of the Bank's operations and operations and ensure that they understand their duties and responsibilities conferred by the relevant laws and regulations of the China Banking Regulatory Commission, the China Securities Regulatory Commission, the Hong Kong Stock Exchange and the Articles of Association. During the Reporting Period, the members of the Board of Directors participated in the training on the "Regulations on the Compliance of Listed Companies", the "Commercial Banking Law" and the "Commercial Bank Internal Control Framework System", as well as meetings as the alternative of training, and participated in the prudential supervision meeting of the Guangdong Banking Regulatory Bureau in 2017, which broadened their visions of macro-level decision-making, enhance their ability to understand major policies and consolidate the intellectual capital of the Board of Directors.

(X) Performance of Independent Non-executive Directors

During the Reporting Period, the Bank had five independent non-executive Directors, the number and proportion of which were in compliance with the relevant requirements of the China Banking Regulatory Commission, the China Securities Regulatory Commission and the Listing Rules of the Hong Kong Stock Exchange. The Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Consumer Protection Committee of the Bank are all chaired by independent non-executive Directors. During the Reporting Period, the independent non-executive Directors actively participated in the Board meetings and meetings of the respective special committees, provided advice and suggestions, played their due role effectively, and continued to effectively communicate with the Bank through various ways such as participating in field trips, special investigations and attending training.

The independent non-executive Directors issued written independent opinions on the resolutions reviewed by the Board of Directors and issued written independent opinions on major issues such as the profit distribution plan, senior management appointments, the engagement of auditors, and major related party transactions. In addition, the independent non-executive Directors of the Bank also took full advantages of their professional advantages in the special committees of the Board of Directors and provided professional and independent opinions on the corporate governance and operation management, which has provided a powerful guarantee for the scientific decision-making process of the Board of Directors.

(XI) Directors' duties in preparing financial statements

The Directors of the Bank acknowledge that they are responsible for the preparation of the financial statements of the Bank for the year ended December 31, 2017.

The Directors are responsible for reviewing and confirming the financial statements for each accounting period so that the financial statements truly and fairly reflect the financial position, operating results and cash flows of the Bank.

In preparing the financial statements for the year ended December 31, 2017, the Directors have selected and applied applicable accounting policies consistently and have made prudent and reasonable judgments.

Corporate Governance Report

(XII) Special committees of the Board of Directors

The Board of Directors of the Bank established five special committees in accordance with relevant laws and regulations, the Articles of Association of the Bank and the Listing Rules, namely, the Strategy and Investment Committee (Sannong Committee), Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Consumer Protection Committee.

During the Reporting Period, the special committee of the Board of Directors of the Bank exercised their duties in an independent, regulated and effective manner in accordance with the law, which effectively enhanced the corporate governance of the Board of Directors, improved the working efficiency and ensured the stable and healthy development of various businesses of the Bank.

1. Strategy and Investment Committee (Sannong Committee)

During the Reporting Period, the Strategy and Investment Committee (Sannong Committee) of the Bank currently consisted of 11 Directors. Its chairman is Mr. Wang Jikang, Chairman and executive Director. The members included Mr. Yi Xuefei, President and executive Director, Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao, Mr. Yung Hin Man Raymond, independent non-executive Directors, Mr. Zheng Shuping, Mr. Su Zhigang, Mr. Shao Jianming and Mr. Zhang Yongming, non-executive Directors.

The scope of authority of the Strategy and Investment Committee (Sannong Committee) during the Reporting Period include:

- Making recommendations on the long-term development strategy and medium and long-term development objective of our Bank;
- Formulating the development strategy and plan of Sannong financial services, reviewing the annual financial development objects and the allocation of service resources for Sannong, and convening regular meetings on Sannong issues;
- Making recommendations on the adjustments of strategies in response to the change of operation environment, supervising and assessing the implementation of strategies and making relevant recommendations;
- Conducting research on and formulating relevant systems for external investment, making recommendations on and formulating plans for the major investment decisions of the Bank (including fixed asset investment and equity investment) and implementing group management on our subsidiaries;
- Conducting research on and formulating relevant system for external mergers and acquisitions, conducting research on the strategy for mergers and acquisitions and making recommendations on the implementation plan, including acquisition object, acquisition method, reorganization and consolidation;
- Conducting research on and planning diversified operation and development models, conducting research on and formulating organization models and management methods of finance (group) companies;
- Determining the development strategy in green credit, examining and approving the green credit targets set by senior management and the green credit reports which it submitted, supervising and evaluating the implementation of the development strategy in green credit at this institution;
- Formulating a development strategy in financial innovation and monitor the implementation of such strategy;
- Conducting research on the implementation of other major issues concerning the strategic development of the Bank.

During 2017, the Strategy and Investment Committee (Sannong Committee) held a total of 3 meetings and 2 meetings on Sannong issues, in which they reviewed and approved 16 resolutions such as the 2016 Annual Work Report of the Second Session of Strategy and Investment Committee (Sannong Committee) of Guangzhou Rural Commercial Bank Co., Ltd., the 2016 Final Accounts of Guangzhou Rural Commercial Bank Co., Ltd. and the 2016 Profit Distribution Plan of Guangzhou Rural Commercial Bank Co., Ltd..

2. Related Party Transactions and Risk Management Committee

During the Reporting Period, the Related Party Transactions and Risk Management Committee of the Bank currently consisted of 6 Directors. Its chairman is Mr. Song Guanghui, independent non-executive Director. The members included Mr. Liu Heng, independent non-executive Director, Mr. Li Fangjin, Mr. Shao Jianming, Mr. Liu Guojie and Mr. Zhu Kelin, non-executive Directors.

The scope of authority of the Related Party Transactions and Risk Management Committee during the Reporting Period include:

- Managing and examining related party transactions of the Bank in a timely manner and providing opinions thereon in order to control the risks arising from related party transactions;
- Reviewing and revising the risk strategies, risk management policies, comprehensive risk management structure and internal control procedures of our Bank, supervising and evaluating their implementation and effectiveness and making recommendations to the Board of the Directors;
- Supervising and evaluating senior management's risk control in terms of credit risk, market risk and operational risk, regularly assessing the Bank's risk and management status, risk tolerance and level and case prevention works, supervising the tests and evaluation of the senior management on the adequacy and effectiveness of the control systems, and advising on the improvement of risk management and internal control of the Bank;
- Supervising and evaluating the establishment, organization methods, working procedures and effects of risk management departments, and advising on improvements;
- Establishing the boundaries of important risks, such as credit risk limits, asset liability risk limits, and risk limits for price changes in the market price of financial instruments. According to acceptable standards, strategies and overall risk measures, it shall supervise, review and advise the Board of Directors on related risk management policies;
- Making suggestions on improving the Bank's economic capital management and implementing the new capital agreement;
- Organizing on-site inspections and off-site supervision work, timely submitting risk assessment results to the Board of Directors, proposing feasible opinions and suggestions on existing problems, and supervising the credit department to avoid issuing loans to related parties and related enterprises beyond their permissions or in violation of laws;
- Reporting to the Board of Directors the risk structure and changes, including the impact of policy changes and new product development, and ensure that the Board of Directors has a full understanding and understanding of key factors which may affect the Bank's risk status;
- With the authorization of the Board of Directors, reviewing and approving major risk management matters or transaction items which exceed the authority of the President and which the President has submitted to the Committee for review;
- Other matters relating to the duties of the Committee as required by laws and regulations or authorized by the Board of Directors.
- Integrating risks of financial innovation activities into the overall management of the Bank's risk management system, formulating risk management procedures and risk control measures, regularly assessing, authorizing and approving policies on financial innovation activity and limitations on innovative product risk, and formulating business emergency plans and continuity plans;
- Formulating policies on reputational risk management, establishing a reputational risk management system, and monitoring the overall status and effectiveness of the Bank's reputational risk management;
- Reviewing and approving the overall policy on case prevention, promoting the construction of the case prevention and management system, putting forward the overall requirements for case prevention works, reviewing the work report on case prevention, assessing the effectiveness of the case prevention works, and urging the senior management to take the necessary measures to effectively monitor, early warn and dispose the risk of case, to ensure that the internal audit shall conduct an effective review and supervision on case prevention works;

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- Reviewing and approving the liquidity risk appetite, the liquidity risk management strategies, important policies and procedures, supervising senior management to effectively manage and control liquidity risks, regularly obtaining liquidity risk reports, and approving liquidity risk information disclosure.

During 2017, the Related Party Transactions and Risk Management Committee held a total of 11 meetings, in which they reviewed and approved 25 resolutions such as the 2016 Annual Work Report of Related Party Transactions and Risk Management Committee of Guangzhou Rural Commercial Bank Co., Ltd., the 2016 Work Report and the 2017 Work Plan on Comprehensive Risk Management of Guangzhou Rural Commercial Bank Co., Ltd., the 2016 Work Report and the 2017 Work Plan on Compliance Risk Management of Guangzhou Rural Commercial Bank Co., Ltd. and the 2016 Work Report and the 2017 Work Plan on Information Technology Risk and Business Continuity Management of Guangzhou Rural Commercial Bank Co., Ltd..

3. Nomination and Remuneration Committee

During the Reporting Period, the Nomination and Remuneration Committee of the Bank currently consisted of 5 Directors. Its chairman is Mr. Liu Shaobo, independent non-executive Director. The members included Mr. Song Guanghui, Mr. Zheng Jianbiao, Mr. Yung Hin Man Raymond, independent non-executive Directors, Mr. Zhang Yongming, non-executive Director.

The scope of authority of the Nomination and Remuneration Committee during the Reporting Period include:

- setting up the selection procedures and criteria, and succession plans for directors and the senior management, and making recommendations to the Board in respect thereof;
- seeking and nominating qualified candidates for directors and senior management and nominating or recommending to the Board of Directors on the selection of directors;
- conducting preliminary review on the qualifications and credentials of candidates for directors and senior management and making recommendations to the Board of Directors;
- reviewing the assessment criteria for directors and the senior management, carrying out assessment and making recommendations;
- assessing the independence of independent directors;
- reviewing and assessing the structure, number of members, size and composition of the Board of Directors (including the skills, knowledge and experience of the members of the Board of Directors) at least once a year, and proposing to the Board of Directors of changes to complement the strategy of the Bank;
- determining and reviewing in appropriate cases the Bank's policy concerning diversity of the Board of Directors members, and disclosing the related policy or a summary of the policy in the corporate governance report of the Bank. Taking into account the Bank's operation and specific needs, diversity of Board of Directors members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience;
- formulating the remuneration plan and structure for directors, supervisors and senior management, establishing formal and transparent procedures for setting up remuneration policies, making recommendations to the Board of Directors and supervising the implementation of the plan. A remuneration package may include non-monetary benefits, right to pension and compensation (including compensation for loss or termination of office or appointment);
- reviewing, assessing and approving the compensation for dismissal or removal of directors for misconduct and making recommendations to the Board of Directors to ensure that the compensation is in compliance with the relevant contractual terms and are otherwise reasonable and adequate;
- reviewing, assessing and approving the compensation to executive directors and senior management for loss or termination of office or appointment and making recommendations to the Board of Directors to ensure that the compensation is in compliance with the relevant contractual terms and is otherwise fair and not excessive;

- ensuring that no director or any of their associates is involved in determining their own remuneration;
- reviewing, assessing and approving the proposed remuneration of senior management in accordance with the policies and objectives of the Bank as determined by the Board of Directors;
- considering the salaries paid by comparable commercial banks, time commitment and responsibilities and employment conditions of other positions in the Bank and its subsidiaries; and
- dealing with other matters related to duties of the Committee required by the laws and regulations or as authorized by the Board of Directors.

During 2017, the Nomination and Remuneration Committee held a total of 3 meetings, in which they reviewed and approved 11 resolutions such as the 2016 Annual Work Report of Nomination and Remuneration Committee of Guangzhou Rural Commercial Bank Co., Ltd., the 2016 Performance Report of Senior Management of Guangzhou Rural Commercial Bank Co., Ltd., the 2016 Performance Report of Directors of Guangzhou Rural Commercial Bank Co., Ltd. and the 2016 Assessment Incentive Results of the Leading Group of Guangzhou Rural Commercial Bank Co., Ltd..

4. Audit Committee

During the Reporting Period, the Nomination and Remuneration Committee of the Bank currently consisted of 5 Directors. Its chairman is Mr. Zheng Jianbiao, independent non-executive Director. The members included Mr. Liu Heng, Mr. Yung Hin Man Raymond, independent non-executive Directors, Mr. Li Fangjin and Mr. Zhu Kelin, non-executive Directors.

The scope of authority of the Audit Committee during the Reporting Period include:

- reviewing the financial and accounting policy and practice, financial position and financial reporting procedures of the Bank;
- reviewing the risk and compliance conditions of the Bank;
- supervising the completeness of financial statements, annual reports and accounts, interim reports and quarterly reports (if to be published) of the Bank, reviewing the major opinions about the financial declarations set out in the statements and reports, preparing analytical report on the authenticity, completeness and accuracy of the information set out in audited financial reports and submitting the same to the Board of Directors for review and consideration;
- making recommendations on the appointment, re-appointment and replacement of external auditors being responsible for annual audit, approving the remuneration and terms of engagement of external auditors and dealing with any questions in relation to its resignation or dismissal;
- reviewing and monitoring the independence and objectivity of the external auditor and effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the external auditor on the nature, scope of the audit and relevant reporting obligations before the audit commences;
- developing and implementing the policy on engaging an external auditor to supply non-audit services. The Committee shall report and make recommendations to the Board of Directors on any matters where actions or improvements are needed;
- supervising the internal audit system of the Bank and its implementation;
- coordinating the communication between internal auditors and external auditors and ensuring the coordination between their work, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Bank; reviewing and monitoring its effectiveness and acting as the key representative body for overseeing the Bank's relations with the external auditor;
- reviewing and supervising the financial information and its disclosure and financial supervision of the Bank;

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- reviewing and supervising the internal control system of the Bank, discussing the risk management and internal control system with the management and ensuring that the management has duly performed its duties and established an effective system, and conducting audits on material connected transactions. The discussion shall include the adequacy of resources, staff qualification and experience, training programmes and budget of the Bank's accounting, internal audit and financial reporting functions;
- considering major investigation findings on risk management and internal control matters as authorized by the Board of Directors or on its own initiative and management's responses to these findings;
- reviewing the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or control systems and the management's responses;
- ensuring that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter;
- reviewing and assessing the Bank's examination mechanism regarding possible improprieties of employees of the Bank in financial reporting, internal control or other matters; and ensuring that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions by the Bank;
- reporting regularly to the Board of Directors on audit works and on the matters in these Terms of Reference;
- considering other topics raised by the Board of Directors;
- other matters related to duties of the Committee required by the laws and regulations or as authorized by the Board of Directors;
- urging the senior management to carry out the internal audit of consumer rights and interests protection on a regular basis and supervising the rectification;
- reviewing the internal audit reports in relation to the overall risk management and supervising the rectification.

During 2017, the Audit Committee held a total of 5 meetings, in which they reviewed and approved 9 resolutions such as the 2016 Annual Audit Report on Financial Statements of Guangzhou Rural Commercial Bank Co., Ltd., the 2016 Work Report and 2017 Work Plan on Internal Audit of Guangzhou Rural Commercial Bank Co., Ltd., the 2016 Internal Control Evaluation Report of Guangzhou Rural Commercial Bank Co., Ltd. and the Proposal to Review the Unaudited Preliminary Financial Information of the Bank for the Year Ended December 31, 2016 Set out in the Prospectus for the Issuance and Listing Application of H Shares.

5. Consumer Protection Committee

During the Reporting Period, the Consumer Protection Committee of the Bank currently consisted of 5 Directors. Its chairman is Mr. Liu Heng, independent non-executive Director. The members included Mr. Liu Shaobo, independent non-executive Director, Mr. Zheng Shuping and Mr. Liu Guojie and Mr. Su Zhigang, non-executive Directors.

The scope of authority of the Consumer Protection Committee during the Reporting Period include:

- formulating the strategies, policies and objectives of the Bank's protection of consumer rights and interests, incorporating the relevant content of consumer rights protection into the corporate governance and corporate culture construction, and taking it as an important part of the business development strategy;
- Being responsible for assisting the Board of Directors in overall planning and guidance on the protection of consumer rights, supervising and promoting the senior management's effective conducting and implementation of consumer rights protection works, and regularly listening to senior management's special reports on the development of consumer rights protection works, reviewing and approving the relevant special reports, submitting the relevant special reports and annual reports to the Board of Directors;

- supervising and assessing the Bank's consumer protection work regarding its comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties;
- deliberating proposals on consumer protection intended for consideration of the Board of Directors, and make recommendations to the Board of Directors;
- assisting the Board of Directors to regard the work related to the protection of consumer rights as an important part of information disclosure, which shall be fully disclosed in the annual report and social responsibility report;
- formulating the annual work plan for the protection of consumer rights, and urging senior management to implement the various resolutions of the Committee;
- other matters related to duties of the Committee required by relevant regulatory requirements for banking consumer protection or as authorized by the Board of Directors.

During 2017, the Consumer Protection Committee held a total of 3 meetings, in which they reviewed and approved 3 resolutions such as the Work Report on Consumer Rights Protection Works for the Third Quarter and the Work Plan for the Fourth Quarter and the Report on the Rectification of Problems Existing in the Protection of Consumers' Rights and Interests of Guangzhou Rural Commercial Bank.

(XIII) The election process of Board members

According to the provisions of the Bank's Articles of Association, Directors shall be elected or replaced at a shareholders' general meeting. The term of office of the directors shall be 3 years, and a director may be re-elected and re-appointed upon expiry of his/her term of office. The term of office of a director shall commence from the date on which directorship of the said director was confirmed by the banking regulatory authority of the State Council to the expiry of the current term of the Board of Directors. Before the expiry of the director's term of office, the shareholders' general meeting shall not dismiss any director without any reason.

Where re-election is not carried out promptly after a director's term of office expires, the director shall continue to perform the duties owed by a director before a new director is elected to take up the office, subject to the laws, regulations, regulatory requirements and these Articles.

The president or other senior management may concurrently serve as a director, provided that the aggregate number of the directors who concurrently serve as senior management and employee representative directors shall not exceed one half of the total number of directors of the Bank and the number of the directors in the Board of Directors who serve as senior management shall be no less than 2.

The Board of Directors may comprise employee representative(s) of the Bank. Employee representatives who serve as directors shall become members of the Board of Directors after elected by employee representatives at the staff representative assembly of the Bank, which shall be reported by the Board of Directors to the shareholders' general meeting.

The Board of Directors may duly increase the proportion of directors and independent non-executive directors with international exposure and management experience as well as professional knowledge in areas such as finance, accounting, risk management, financial management and financial technology.

After a director is elected and his/her directorship is approved by the banking regulatory authority of the State Council, the Bank shall enter into an employment contract with such director in a timely manner, which shall specify, among others, rights and duties between the Bank and the director, the term of office of the director, liability of the director due to violation of laws, regulations and his/her responsibilities stipulated by these Articles and compensation on early termination of the said employment contract for any reason by the Bank, in compliance with the laws, regulations and provisions of these Articles.

V. BOARD OF SUPERVISORS

(1) Composition of Board of Supervisors

Our Board of Supervisors currently consists of eight Supervisors, comprising three shareholder representative Supervisors (being Mr. Huang Yong, Mr. Lu Lian and Mr. Zhang Dalin); three external Supervisors (being Mr. Mao Yunshi, Mr. Chen Dan and Mr. Shao Baohua); and two employee representative Supervisors (being Mr. Xiao Shilian and Ms. He Heng).

The supervisors of the Bank are elected for a term of three years and are eligible for re-election upon the expiration of such term. External Supervisors are elected for a term of three years and are eligible for re-election, provided that the term of office may not exceed six consecutive years.

(2) Duties of Board of Supervisors

According to the Articles of Association, the Board of Supervisors assumes supervisory responsibility and exercise the following powers:

- to examine and provide comment in writing on the periodical reports of the Bank prepared by the Board of Directors;
- to examine and supervise the Bank's financial affairs and the management of consolidated financial statements;
- to monitor the directors and senior management in the performance of their duties and to propose to recall the directors and senior management who are in breach of laws, administrative regulations, the Articles of Association or resolutions of the general meetings;
- to demand rectification from a director and senior management whose acts are detrimental to the interests of the Bank;
- to make comprehensive assessment and conduct inquiries to the directors, supervisors and senior management on their performance of their duties, to report the said assessment results to the shareholders' general meeting and to file the same to relevant regulatory departments in accordance with relevant requirements;
- to conduct special and off-office audit in respect to any directors and senior officers;
- to conduct supervision and assessment over the performance of duties by the Board of Directors and senior management in respect of the key works including strategic management, operation decisions, financial management, remuneration management, capital management, internal control, comprehensive risk management, liquidity management, compliance management, fraud-prevention, Sannong financial services and connected transactions and to report the same to the shareholders' general meeting in accordance with relevant requirements, to consider relevant audit reports in accordance with relevant requirements and to provide guidance with respect to such internal audits of the Bank;
- to propose the convening of extraordinary general meetings; to convene and host the general meetings under the circumstances that the board of directors cannot perform its responsibility of convening or hosting the general meeting as required by the provisions in the Company Law;
- to propose the proposals to the general meetings;
- to bring the lawsuits against the directors and senior management according to Article 152 of the Company Law;
- to investigate any abnormality found in operations of the Bank, and when necessary, to engage such professionals as accountant firms or law firms to assist in the work, for the account of the Bank;
- to supervise the Board of Directors on the establishment of stables business ideas, valuation standard and making reasonable developing strategies according to the facts of the Bank;
- to make periodical assessments on the scientificness, reasonability and effectiveness of the developing strategies made by the Board of Directors and make the reports;

- to supervise the procedure of the appointment of the directors;
- to supervise on the system of the salary management and policy and the scientific nature and reasonability on the salary plan of the senior officers;
- to communicate with the banking regulatory authorities about the condition of the Bank;
- other duties and powers as provided in laws, regulations, provisions and the Articles of Association.

(3) Principal Means of Performing Duties by Board of Supervisors

The Board of Supervisors mainly performs duties in the following ways: convening regular meetings, attending, and sitting in on, general meetings, board meetings and board committee meetings; sitting in on meetings of senior management related to operation and management; listening to reports on relevant work from senior management and departments; conducting annual performance assessment for directors and senior management; reviewing various documents; carrying out special investigation at branches; putting forward work recommendations for the Board of Directors and senior management; and engaging third-party professional agencies to conduct audits or reviews and evaluation, etc.

During the Reporting Period, the Board of Supervisors supervised the 2016 annual performance of the Board of Directors, Directors, senior management and its members and Supervisors of the Bank, gave feedback to the Board of Directors and senior management, and reported to regulatory authorities.

(4) Meetings of Board of Supervisors

During the Reporting Period, the Board of Supervisors convened a total of 5 meetings, at which 7 resolutions such as the 2016 report on the work of the Board of Supervisors, 2016 appraisal report of Supervisors' duty performance, 2016 appraisal report of Directors' duty performance, 2016 report on the auditing work and 2017 work plan have been considered and approved.

The following table set out the attendance of Supervisors in 2017 at the meetings of the Board of Supervisors and the committees thereof:

Supervisors	Board of Supervisors	Nomination Committee	Audit Committee
Liu Wensheng	4/5	1/1	—
Xiao Shilian	5/5	—	3/3
He Heng	5/5	1/1	—
Lu Lian	4/5	1/1	—
Huang Yong	5/5	—	3/3
Zhang Dalin	4/5	—	3/3
Mao Yunshi	5/5	1/1	—
Shao Baohua	5/5	1/1	3/3
Chen Dan	5/5	—	3/3

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(5) Supervisors' Continuing Professional Development Plan

During the Reporting Period, the Board of Supervisors organized field research in Changning, Zhuzhou, Huixian, Huadu and other places to gain an in-depth understanding of the branches' implementation of the development strategy and operational management, especially risk management, of the head office. The Board of Supervisors objectively analyzed the operation and management of different branches in different economic environments through research, and made recommendations on the implementation of strategic transformation, strengthening comprehensive risk management, strengthening internal control, and focusing on team building, and submitted the same to the Board of Directors and senior management for reference in an appropriate form. The research results were fully utilized.

During the Reporting Period, the members of the Board of Supervisors participated in the training three times and conducted training on China's form of macro finance, economic situation and financial reforms.

(6) Special Committees of the Board of Supervisors

The Board of Supervisors of the Bank shall set up an Audit Committee and a Nomination Committee. Both of the Audit Committee and Nomination Committee consist of five Supervisors, and the chairmen are all served by external Supervisors.

1. Audit Committee

During the Reporting Period, the audit committee of the Bank consisted of five Supervisors. The chairman was Mr. Shao Baohua and the members included Mr. Huang Yong, Mr. Chen Dan, Mr. Zhang Dalin and Mr. Xiao Shilian.

The key terms of reference of the Audit Committee during the Reporting Period are as follows:

- supervising the performance of the Board of Directors and its members and the senior management;
- organizing audits on economic responsibility of the directors and senior management during the terms of office and upon resignation;
- inspecting and supervising the Bank's financial activities and supervising the consolidated management;
- for the Board of Directors and senior management in strategic management, business decision-making, financial management, compensation management, capital management, internal control, comprehensive risk management, liquidity risk management, compliance management, case prevention work, rural finance services, connected transactions, it executed the supervision and evaluation of the implementation of key job responsibilities, reported to the general meeting of shareholders in accordance with regulations, reviewed relevant audit reports in accordance with regulations, and guided the work of the internal audit department of the Bank;
- supervising the Board of Directors to establish a stable operation concept, principles of values and a development strategy suitable for the Bank;
- evaluating regularly the scientificness, rationality and effectiveness of the development strategy formulated by the Board of Directors and form an assessment report;

In 2017, the Audit Committee convened three meetings and reviewed and passed five proposals including the 2016 Annual Report of the Internal Audit of Guangzhou Rural Commercial Bank Co., Ltd. and the 2017 Work Plan, and the Audit Committee's Work Report.

2. Nomination Committee

During the Reporting Period, the Nomination Committee of the Bank consisted of five Supervisors. The chairman was Mr. Mao Yunshi and the members included Mr. Liu Wensheng, Mr. Lu Lian, Mr. Shao Baohua and Ms. He Heng.

The key terms of reference of the Nomination Committee during the Reporting Period are as follows:

- Studying the selection criteria and procedures for supervisors;
- Conducting preliminary review of the qualifications of supervisors;
- Advising the Board of Supervisors on the number and composition of the Board of Supervisors;
- Examining the performance of supervisors;
- Extensive search for qualified supervisors;
- Supervising the selection process of directors;
- Supervising the scientific principle and rationality of the entire bank's remuneration management system and policies and senior management remuneration plan.
- Other responsibilities as authorized by the Board of Supervisors.

In 2017, the Nomination Committee held one meeting and reviewed and approved the proposal for the 2016 Performance Evaluation Report of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd.

VI. SENIOR MANAGEMENT

The Bank has one president who shall be appointed or dismissed by the Board of Directors. The Bank has vice presidents, assistants to the president, business directors, certain chief officers and one board secretary. The vice presidents, assistants to the president, business directors are appointed or dismissed by the Board according to the president's nomination. The chief officers and board secretary are appointed or dismissed by the Board according to the chairman's nomination. The senior management members are in compliance with the laws and regulations and the qualifications as required by the banking regulatory institutions.

The president takes charge of the operation and management of the Bank, to organize the implementation of the resolutions of the Board of Directors and to report the work to the Board of Directors; organize the implementation of the Bank's annual business plans and investment proposals; draft proposals on the establishment of the Bank's internal management entities; draft the Bank's basic management system; formulate the Bank's specific regulations; propose to the Board of Directors to appoint or dismiss the vice presidents, assistant to the president, finance chief, internal auditor and compliance officer; and determine to appoint or dismiss management personnel other than those to be appointed or dismissed by the Board of Directors in accordance with laws and regulations and the articles of association and powers authorised by the Board of Directors.

The senior management of the Bank established the compliance and risk management committee, asset disposition review committee, asset and liability committee, finance approval committee, supervisory committee on performance of duties.

The Board of Directors evaluated the senior management of the Bank. The Bank formulated a system of senior management reporting to the Board of Directors, requiring senior management to report on the work situation during the previous working year. The Board of Directors evaluated the performance of its duties or performance, and used this as a basis on income distribution and rewards and punishments. The Bank further established and improved the assessment system for senior management of the Bank, fulfilled the responsibilities of senior management, improved corporate governance structure, and promoted the Bank's steady and rapid development.

VII. SECURITIES TRANSACTIONS BY DIRECTORS' SUPERVISORS AND SENIOR MANAGEMENT

The Bank has adopted, in respect of securities transactions by directors, supervisors and relevant employees, the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules. Having made specific enquiries, all Directors, supervisors and senior management confirmed that they have complied with the Model Code during the year ended December 31 2017.

VIII. RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, family or other material affiliated relationship between the Directors, Supervisors and senior management of the Bank.

IX. AMENDMENT TO ARTICLES OF ASSOCIATION

The Bank obtained approval from Guangdong Bureau of CBRC on December 23, 2016, and the Articles of Association of the Guangzhou Rural Commercial Bank Co., Ltd. (2016 Revision) came into effect.

On September 11, 2017, the Bank convened the first extraordinary general meeting in 2017 and considered and approved the amendment to the articles of association. Such amendment was submitted to Guangdong Bureau of CBRC for approval as required.

X. COMPANY SECRETARIES

Ms. Zheng Ying and Ms. Ko Nga Kit are the joint company secretaries of the Bank. Each of the Directors could discuss with the company secretaries for seeking opinions and obtaining information. Ms. Zheng and Ms. Ko has confirmed that they attained no less than 15 hours of relevant professional training during the reporting period.

XI. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The 2017 annual financial statements was audited by Ernst & Young Hua Ming CPA Limited Company (Special General Partnership), while Ernst & Young reviewed the 2017 Interim Financial Statements (IFRS) and the 2017 Annual Financial Statements. In 2017, the Bank paid the remuneration to the above-mentioned CPA firm of RMB 5.927 million for the audit and review of financial statements.

XII. RISK MANAGEMENT, INTERNAL CONTROL AND INSIDE INFORMATION MANAGEMENT

For the Group's risk management and internal controls, please refer to chapter headed "Management Discussion and Analysis".

During the Reporting Period, in line with regulatory requirements and the actual situation of the Bank, the Bank formulated the internal information management measures, established the daily working mechanism of inside information, strengthened the Bank's confidential management and registration management of inside information through special training, established a record system at all levels of the Bank, carried out special inspections, and strengthened the management of inside information.

XIII. SHAREHOLDER'S RIGHTS

(1) Convening Extraordinary General Meetings

The Shareholders shall enjoy the following rights in accordance with the Articles of Association:

If the Board is unable or fails to perform its duty in convening the shareholders' general meeting, the Board of Supervisors shall promptly convene the meeting; if the Board of Supervisors does not convene the meeting, the shareholders who individually or jointly hold above 10% of the Bank for above 90 consecutive days may convene such meetings on their own initiative. The Board of Directors shall provide a written response as to whether or not it agrees to convene the extraordinary general meeting within ten days in accordance with the requirements of the laws, regulations, regulatory requirements and these Articles;

If the Board of Directors agrees to convene the extraordinary general meeting, a notice convening such a meeting shall be issued within five days after the resolution of the Board of Directors is passed. If the Board of Directors does not agree to convene the extraordinary general meeting, it shall provide reasons;

In case the Board of Directors refuses, or does not give any response within 10 days upon receipt of the request, the shareholders who individually or jointly hold more than 10% of the voting shares at such proposed meeting shall have the right to propose to the supervisory committee for the convening of such meeting, and shall make such request to the supervisory committee in the form of writing;

If the supervisory committee agrees, a notice of the meeting shall be issued within five days upon receipt of the request. Changes made to the original request in the notice shall be approved by relevant shareholders; and

If the supervisory committee fails to give the notice of a general meeting or class meeting within the specified time limit, it shall be deemed to have failed to convene or preside over the meeting, in which case, the shareholders who either individually or jointly hold more than 10% of the Company's shares (such shares shall have voting rights at such proposed meeting) for more than 90 consecutive days may convene and preside over the meeting by themselves.

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(2) Proposals to Shareholders' General Meetings

The proposal of shareholders' general meetings shall be within the scope of authority of the shareholders' general meeting, it shall have definite topics for consideration and specific items to be decided by resolution in accordance with the related requirements of the laws, administrative regulations and these Articles.

When the Bank convenes shareholders' general meetings, the Board of Directors, the Board of Supervisors and the shareholders who individually or jointly hold a total of 3% or more of the shares of the Bank carrying the right to vote shall be entitled to submit their proposals in writing to the Bank. The Bank shall include matters in the proposal which are within the scope of responsibilities of the shareholders' general meeting into the agenda.

(3) Enquires from Shareholders

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

Computershare Hong Kong Investor Services Limited

Shop 1712-1716, 17 Floor, Hopewell Centre, No.183 Queen's Road East, Wanchai, Hong Kong

Tel.: (852) 28622863

Fax: (852) 28650990/ (852) 25296087

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

the Bank's Board of Directors' Office

No. 1 Huaxia Road, Tianhe District, Guangzhou, the PRC

Tel.: (020) 28019324

Fax: (020) 22389227

(4) Management of Investor Relations

Shareholders and investors may send enquiries to the Board to:

the Bank's Board of Directors' Office

No. 1 Huaxia Road, Tianhe District, Guangzhou, the PRC

Tel.: (020) 28019324

Fax: (020) 22389227

Email: ir@grcbank.com

(5) Information Disclosure

The Bank attaches importance to communication with shareholders, and seeks to improve understanding and communication among shareholders through various channels including general meetings, results announcement conferences, roadshows, receiving guests and telephone consultation.

XIV. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN HONG KONG LISTING RULES

The Company agrees to the principles of Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to Hong Kong Listing Rules. The Company has been in full compliance with the provisions of the Code during the period from the Listing Date (June 20, 2017) to December 31, 2017.

XV. REMUNERATION MANAGEMENT

(1) Remuneration System

In 2017, the Bank further improved its remuneration performance system, formulated the “Guangzhou Rural Commercial Bank’s Management Measures for Deferred Payment of Compensation (Revised in 2017)” (Sui Nong Shang Fa [2017] No. 523) (《廣州農村商業銀行薪酬遞延支付管理辦法(2017年修訂)》(穗農商發[2017]523號) and “Guangzhou Rural Commercial Bank’s Staff Performance Evaluation Methods. (Revised in 2017) (No. 491, Sui Nong Shangfa [2017]) (《廣州農村商業銀行員工績效考核辦法(2017年修訂)》(穗農商發[2017]491號)). At present, the Bank’s current remuneration system includes: “Guangzhou Rural Commercial Bank Remuneration Management Measures (Trial)” (《廣州農村商業銀行薪酬管理辦法(試行)》), “Guangzhou Rural Commercial Bank Employee Performance Assessment Methods (Trial)” (《廣州農村商業銀行薪酬管理辦法(試行)》), “Guangzhou Rural Commercial Bank Performance Salary Pool Management Measures (《廣州農村商業銀行績效工資池管理辦法》)”, and “Guangzhou Rural Areas “Administrative Measures on Payment Deferred Payment of Commercial Banks (《廣州農村商業銀行薪酬遞延支付管理辦法》)” and “Guideline for the Remuneration Management of Pearl River Village Banks (Revised) (《珠江村鎮銀行薪酬管理工作指引(修訂)》)”. Established a remuneration performance system that matches the organizational structure and position system of the Bank and used the performance management system to conduct scientific assessments. This has enhanced the external market competitiveness and internal fairness of remuneration, and established incentives and constraints that meet the requirements of the development of modern financial enterprises. The mechanism fully mobilized the employees’ enthusiasm for work and effectively played the role of salary guarantee and incentive.

Corporate Governance Report

(2) Total remuneration for 2017

Details of the remuneration of the employees of the Bank in 2017 are set out in the “Management Discussion and Analysis”. The Bank does not have non-cash remuneration. Such annual remuneration plan has been reported and filed as required by the Guangzhou SASAC.

(3) Remuneration of Senior Management

For the remuneration of the senior management of the Bank in 2017, please refer to the section headed “Directors, Supervisors, Senior Management and Staff”.



Report of the Board of Directors

The Board of Directors hereby presents the Report of the Board of Directors together with the audited financial statements of the Group for the year ended December 31, 2017.

I. BUSINESS REVIEW

(1) Business Review

The Group is primarily engaged in PRC banking and related financial services, primarily including corporate banking, retail banking and financial market business.

Further discussion and analysis of the business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including the key risks and uncertainties faced by the Group and the possible future development plan of the Group's business, are set out in the "Management Discussion and Analysis" and "Directors, Supervisors, Senior Management and Staff" sections of this annual report.

Such discussions form an integral part of this Report of the Board of Directors.

(2) Employment Relationship

The Bank actively established a good employment relationship with employees and partners for coordinated development.

The Bank has established a multi-channel and multi-level two-way communication mechanism so that each employee has the opportunity to participate in the Bank's operations and development. Zhujiang Business School under the Human Resources Department focused on long-term talent strategy planning, continued to build a professional, market-oriented, pioneering, and advancing mean of employees, organized the "Taiyang • Jinrong" training for the middle and senior management, the "Taiyang • Jinqiang" seminar for first line management, the "Zhujiang Wendao" lecture and a series of open classes and other training programs. The Bank continued to optimize its recruitment and selection, training and development, assessment and incentive and promotion mechanism, and established a ladder-type talent echelon to create a broad career development platform for employees to achieve their mutual growth with the Bank. The "Guiding Opinions on Improving Humanized Management and Humanistic Care for Employees" was promulgated, advocating humanized management, strengthening work care, life care and physical and mental health care, organizing employees to conduct annual checkups, and establishing care and mutual funds for employees to purchase supplementary medical insurance and major illness insurance for all employees, so as to provide subsidies for seriously ill and difficult employees. The Bank implemented the pension compensation program for retired employees, organized retired employees to conduct annual checkups, organized retired employees to hold quarterly discussions, and reasonably improved pension benefits for retired employees. The Bank carried out diverse employee activities such as singing contests, badminton matches, football leagues, track and field events, and public welfare walks, and continued to enhance employees' sense of well-being and cohesion.

(3) Relationship with Customers and Suppliers

The Bank actively promotes the financial services of deposit customers, loan customers and interbank customers, and strives for customers' understanding, trust and support. The Bank insists the market principle for all customers who apply for loans, especially related customers, and avoids special credit aid priority.

The Bank adheres to the principles of openness, fairness and impartiality, employs suppliers in the form of tenders and open consultations, and maintains good communication and cooperation with various suppliers.

Report of the Board of Directors

(4) The Environmental Policy and Performance of the Bank

The Bank is committed to the long-term sustainability of the operating environment and community. The Bank acted in an environmentally responsible manner and tried its best to comply with laws and regulations concerning environmental protection, and took effective measures to make effective use of resources, save energy and reduce waste.

The Bank continued to pay attention to and attached importance to the protection of the environment, proposed and implemented green credit financial services, and clearly defined green consumption, green economy, low-carbon economy, and circular economy in the bank's basic credit policy to encourage and support the industry and increase energy conservation and emission reduction for sewage treatment, waste credit and energy recycling industry. Meanwhile, resolutely reduce pressure to eliminate loans in the area of backward production capacity, and strictly prohibit the creation of any form of credit support for projects with serious environmental protection violations, and effectively prevent high energy consumption and high costs. All kinds of risks were brought about by pollution to create a full-process green low-carbon business model.

The Bank also promoted the concept of low-carbon and environmentally-friendly operations, advocated the concept of "green office, energy conservation and environmental protection" and integrated it into the construction and operation of office premises and business outlets. The Bank reduced printing and environmental protection, promoted paperless cabinets and green office, purchased energy-saving equipment, turned off lights and turned off water, continued to reduce energy consumption and carbon emissions, and actively performed any possible environmental protection work.

(5) Details of major events affecting the company that occurred after the review of the end of the financial year

The Bank conducted a comprehensive review of 2017 financial performance in compliance with national laws and regulatory requirements and prepared the 2017 Annual Report. After the end of the annual financial review, the Bank did not have any events or cases that had a significant impact on the Bank.

(6) Permitted Indemnity Provision

According to code provision A.1.8, the Bank shall maintain appropriate insurance to cover the potential legal litigations initiated against the Directors of the Bank. In order to comply with such code provision, the Bank has purchased appropriate liability insurance for the Directors and to provide indemnity for their liabilities incurred during the operations of the Bank for the year ended December 31, 2017.

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

(7) Equity-linked Agreement

During the year ended 31 December 2017, the Bank did not enter into any equity-linked agreement.

II. PROFITS AND DIVIDENDS

(1) Dividends

The results of the Group for the year ended December 31, 2017 and the financial positions of the Group as at that date are set out in the “consolidated financial statements” in this annual report.

Pursuant to the resolution passed at the 2016 annual general meeting held on April 25, 2017, the Bank paid a cash dividend of RMB0.20 (tax inclusive) per share for 2016 to all shareholders in an aggregate amount of RMB1.63 billion (tax inclusive). Such dividend was paid to the domestic shareholders whose names appeared on the register of members after the closing of market on June 20, 2017. Such dividend was denominated, and paid to shareholders, in Renminbi. Such dividend was paid on June 21, 2017.

The payment of such dividend is subject to the consideration at the 2017 annual general meeting, and, if approved, such dividend will be paid to the domestic shareholders and H shareholders whose name appeared on the register of members of the Bank on June 14, 2018. Such dividend will be denominated in Renminbi, and paid to the domestic shareholders and H shareholders in Renminbi and Hong Kong dollars, respectively. The exchange rate for dividend paid in Hong Kong dollars shall be the average middle rate for the five business days preceding the date of declaration of such dividend at the 2017 annual general meeting (i.e., May 31, 2018, inclusive) as announced by the PBOC. It is expected that the dividend payment date will be on July 13, 2018. For further details on the 2017 dividend of the Bank, please refer to the circular of the Bank on the 2017 annual general meeting.

The Bank has not proposed any resolutions to convert the capital reserve to increase the share capital in the past three years. The cash dividend distribution for ordinary shareholders of the Bank for the past three years is as follows:

Item	2016	2015	2014
Distribution Amount per Share (pre-tax, RMB)	0.2	0.2	0.28
Cash Dividend (pre-tax, RMB100 Million)	16.3	16.3	22.8
Ratio of Cash Dividend (%)	20.0	20.0	28.0

(2) Tax on Dividends

According to the provisions of the “People’s Republic of China Corporate Income Tax Law” and the “Law of the People’s Republic of China on Individual Income Taxes” and its implementing regulations, dividends paid by shareholders of natural persons are deducted by the Bank at a 20% rate for domestic shares according to the State Tax Law. For personal income tax; corporate shareholders need to comply with the provisions of the national tax law, by its own declaration.

Taxes on H shares is subject to the Hong Kong tax law.

According to the Enterprise Income Tax Law and its implementation rules, both effective on January 1, 2008, before distribution of dividends, the Company shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise Shareholders whose names appear on the Bank’s register of members for H Shares.

According to the Notice on Issues Concerning Taxation and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348), the Company shall withhold and pay individual income tax for individual holders of the H Shares.

Report of the Board of Directors

If the individual holders of the H shares are Hong Kong or Macau residents or residents of the countries or regions which have an agreed tax rate of 10% under the relevant tax treaties with the PRC, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such shareholders.

If the individual holders of the H shares are residents of the countries or regions that have a tax rate lower than 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such shareholders. If such shareholders claim refund of the amount in excess of the individual income tax payable under the tax treaties, the Bank can apply on behalf of such shareholders according to the relevant tax treaties for the relevant agreed preferential tax treatment provided that the relevant shareholders submit the relevant documents and information in a timely manner required by the Administrative Rules on Enjoying Treatment under Taxation Treaties by Non-resident Taxpayers (State Administration of Taxation Announcement, 2015, No. 60) and the provisions of the relevant tax treaties. The Bank will assist with the tax refund subject to approval of the competent tax authority.

If the individual holders of the H shares are residents of the countries or regions that have a tax rate higher than 10% but lower than 20% under the tax treaties with the PRC, the Bank will withhold and pay individual income tax at the applicable tax rates stated in such tax treaties on behalf of such shareholders.

If the individual holders of the H shares are residents of the countries or regions that have a tax rate of 20% under the tax treaties with the PRC, or that have not entered into any tax treaties with the PRC, or otherwise, the Bank will withhold and pay individual income tax at the rate of 20% on behalf of such shareholders.

III. ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM for the year 2017 will be held on Thursday, May 31, 2018. In order to determine the holders of shares who are eligible to attend and vote at the AGM, no transfer of shares will be registered from Monday, April 30, 2018 to Thursday, May 31, 2018, both days inclusive. For those holders of H shares of the Bank who wish to attend the AGM for the year 2017, all share transfer documents accompanied by the relevant share certificates must be lodged with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, April 27, 2018.

IV. RESERVES

Details of the movements of the Group's reserves available to shareholders for the year ended December 31, 2017 are set out in the consolidated statement of changes in equity.

V. SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's operating results, assets and liabilities for the year ended December 31, 2017 is set out in the summary of financial data in this annual report.

VI. DONATIONS

Donations made by the Group during the year ended December 31, 2017 for charitable and other purposes amounted to RMB5.5253 million.

VII. PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group for the year ended December 31, 2017 are set out in note 25 “Property and Equipment” to the “Financial Statements” of this annual report.

VIII. RETIREMENT BENEFITS

Details of the retirement benefits provided to employees of the Group are set out in note 34 “Compensation Payable to Employees” to the Financial Statements of this annual report.

IX. ULTIMATE PARENT AND ITS SUBSIDIARIES

Details of the Bank’s ultimate parent and its subsidiaries as at December 31, 2017 are set out in the relevant sections of “Movements in Share Capital and Shareholders – Substantial Shareholders” and notes to the Financial Statements of this annual report, respectively.

X. PURCHASE, SALES AND REDEMPTION OF SHARES OF THE BANK

During the Reporting Period, the Bank and its subsidiaries did not purchase, sell or redeem any shares of the Bank.

XI. PRE-EMPTIVE RIGHTS

The articles of association and relevant PRC laws did not grant the shareholders of the Bank the terms of pre-emptive rights. The articles of association provide that based on the requirements for operation and development and in accordance with laws and regulations and the Articles, after the shareholders’ general meeting has made its resolution and the approval has been obtained from the banking regulatory authorities of the State Council, the Bank may increase its registered capital in the following ways: offering new shares to non-specific investors; issuing new shares to specific investors; allotting new shares to existing shareholders; distributing new shares to existing shareholders; converting capital reserve into share capital; or any other methods approved by the laws, administrative regulations and relevant departments.

Report of the Board of Directors

XII. MAJOR CUSTOMERS

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

XIII. SHARE CAPITAL

Details of the movement in share capital of the Bank during the Reporting Period are set out in note 35 "Share Capital" to the "Financial Statements" of this annual report.

XIV. TOP TEN SHAREHOLDERS AND SHAREHOLDINGS

The top ten shareholders and their shareholdings as at the end of 2017 are set out in "Movements of Share Capital and Shareholders" of this annual report.

XV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the list of the members of the Board of Directors, their biographies and changes as at the end of the Reporting Period are set out in "Directors, Supervisors, Senior Management and Employees". Such section also forms an integral part of the Report of the Board of Directors.

XVI. CONFIRMATION OF INDEPENDENCE FROM NON-INDEPENDENT DIRECTORS

The Bank has received from each of its independent non-executive Directors the annual confirmation of his/her independence. The Bank considers the all independent non-executive Directors are in compliance with the relevant guidelines set out in Rule 3.13 of the Hong Kong Listing Rules, and are accordingly independent.

XVII. FINANCIAL, BUSINESS AND FAMILY RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, family or any material relationship between the Directors, Supervisors and senior management of the Bank.

XVIII. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

XIX. DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for those continuing connected transactions which can be exempted from the reporting annual review, announcement and independent shareholder's approval requirements under Chapter 14A of the Hong Kong Listing Rules, no Director or supervisor of the Bank or entities related to such persons had a material interest, whether directly or indirectly, in material transactions, arrangements and contracts in relation to the Group's businesses to which the Bank, its holding company, any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period (excluding service contracts).

XX. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

During the Reporting Period, none of the Directors and supervisors of the Bank entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation).

XXI. MANAGEMENT CONTRACTS

During the year ended December 31, 2017, there was no management and administrative contract in respect of all or any of the principal activities being entered into by or existed in the Bank.

XXII. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and supervisors of the Bank had any interest in businesses that constitutes or may compete, directly or indirectly, with the business of the Bank.

Report of the Board of Directors

XXIII. CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. The manner in which the principles and code provisions in the Corporate Governance Code are applied and implemented by the Bank is set out in details in the “Corporate Governance Report” of this annual report.

XXIV. CONNECTED TRANSACTIONS

The transactions entered into among the Bank and its connected persons will constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules, subject to the exemption from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Bank has reviewed all connected transactions and confirmed that such transactions were in compliance with the disclosure requirement under Chapter 14A of the Hong Kong Listing Rules.

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard 24, “Related Party Disclosures”, and its interpretations by the IASB. Related party transactions set out in note 48 to the consolidated financial statements do not constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules.

During the Reporting Period, the connected transactions of the Banks are entered into in the ordinary course of business on normal commercial terms, and are in compliance with the disclosure exemption requirement under the Hong Kong Listing Rules.

XXV. REMUNERATION POLICY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank has endeavored to improve its remuneration management measures and performance assessment systems for its Directors, Supervisors and senior management.

The Bank’s remuneration policy for Directors, Supervisors and senior management is based on the principle of combining rights, responsibility and benefits, taking into account short-term benefits and long-term incentives, and governmental regulation and market adjustment, and has defined a structured remuneration system comprising basic salary, incentives and allowances.

The Bank participates in the relevant PRC mandatory retirement schemes for its employees including Directors, Supervisors and senior management. Since the state has not issued relevant policies, the Bank does not implement mid-term and long-term incentive plan for Directors, Supervisors, senior management and other staff members.

XXVI. SUFFICIENT PUBLIC FLOAT

As of December 31, 2017, the public float for H shares of the Bank was 18.56%. Based on information that is publicly available to the Bank and to the knowledge of the Directors, as at the date of this report, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange.

XXVII. TAX RELIEF (H SHAREHOLDERS)

(1) Non-resident Enterprise Shareholders

Pursuant to the relevant requirements of Enterprise Income Tax Law of the People's Republic of China and related implementation rules (the List of Agreed Dividend Tax Rates (Guo Shui Han [2008] No. 112)), Notice of the State Administration of Taxation on Issues Relating to PRC Resident Enterprises' Withholding Enterprise Income Tax in Respect of Dividends to Be Received by Non-resident Enterprise Holders of H Shares (Guoshuihan [2008] No. 897), the Bank will withhold the enterprise income tax at the rate of 10% for H shareholders who are non-resident enterprise shareholders. The effective tax rate will be subjected to the tax treaty.

(2) Non-resident Individual Shareholders

According to Guoshuihan [2011] No. 348 documents issued by the State Administration of Taxation, PRC, the Bank is entitled to relevant preferential tax arrangement for non-resident individual shareholders pursuant to the taxation agreements between the countries where they are residing and China and the regulation on taxation arrangement between the Mainland and Hong Kong (Macau).

1. As for non-resident individual holders of H shares in countries which have entered into an agreement with China in respect of a tax rate lower than 10%, the Bank will apply for the relevant entitlements thereunder on their behalf.
2. As for non-resident individual holders of H shares in countries which have entered into an agreement with China in respect of a 10% tax rate, the Bank will withhold individual income tax at the rate of 10%.
3. As for non-resident individual holders of H shares in countries which have entered into an agreement with China in respect of a tax rate between 10% and 20%, the Bank will withhold individual income tax at the actual rate agreed thereunder.
4. As for non-resident individual holders of H shares in countries which have no tax agreement with China or are under any other circumstances, the Bank will withhold individual income tax at the tax rate of 20%.

XXVIII. ACCOUNTING FIRMS

The domestic and overseas accountants of the Bank for 2017 were Ernst & Young Hua Ming LLP and Ernst & Young, respectively.

The Bank's financial report for the year 2017 prepared in accordance with IFRS had been audited by Ernst & Young, who had issued an unqualified audit report.

The Bank did not change auditors for the last three years.

Report of the Board of Directors

XXIX. USE OF PROCEEDS

The Bank was listed on the Hong Kong Stock Exchange on June 20, 2017. It fully exercised the over-allotment option on July 13, 2017. The number of H shares in the global offering was 1.82 billion at an issue price of HK\$5.10 per H share. The nominal value of each H share was RMB1.00 and the net proceeds raised were approximately HK\$8,440 million.

The funds raised by the Bank were used for the purpose disclosed in the prospectus (i.e., to supplement the Bank's capital) to meet the Bank's needs of continuous business growth and to support the Bank's various businesses to continue to develop rapidly and healthily.

XXX. ISSUE OF DEBENTURES

For the issue of debentures by the Bank, please refer to "Movements of Share Capital and Shareholders – Issue, Purchase, Sales and Redemption of Shares" of this report.

XXXI. SOCIAL RESPONSIBILITY

The Bank adheres to the service concept of "taking care of every step with your heart", adheres to the business tenet of "serving Sannong, serving micro, small and medium enterprises, and serving local economic development", incorporates the fulfillment of social responsibilities into the Group's development strategy, and actively performs economic responsibility, social responsibility, and environmental responsibility, so as to establish a social responsibility management mechanism for the coordinated development of stakeholders such as shareholders, customers, employees, communities, partners, and the natural environment. During the Reporting Period, the Bank's social responsibility practices have yielded fruitful results and have been fully recognized by the regulatory authorities and the public, obtaining a number of honours such as "China's Best Business Model" and "China's Best Credit Risk Technology Implementation of the Year" of "Asia Banker", and "Annual Project Award" of the 7th China Public Welfare Festival.

(1) The Active Performance of Economic Responsibilities and Dedication to Inclusive Finance

The Bank takes serving agriculture, farmers and the countryside as the principle. It adheres to modern agriculture and the traditional village community and pays equal attention to all measures. It comprehensively promotes the transformation and upgrading of "three rural" financial services and builds an inclusive financial service network and service model. The Bank does work "for farmers, benefit farmers, strengthen farmers." With the mission of serving small and micro enterprises, it continued to improve the financial services mechanism for small and micro enterprises and innovated financial service products and service models for small and micro enterprises. Insisting on serving the real economy and people's livelihood needs, the Bank actively engages in macroeconomic and industrial development policies, gives full play to the leverage of financial resources, and effectively fulfills the responsibility for economic restructuring and livelihood building.

(2) Actively Performing Environmental Responsibility and Promoting Green Development

Under the guidance of the green credit policy, the Bank insisted on supporting the development of a green economy, a low-carbon economy, and a recycling economy. It strictly controlled the “two industries with high incomes and one left industry”, and included the environmental protection and environmental responsibility of lenders in the approval process for credit approval in the system of client entry phase. The Bank established a omni-channel and all-weather green service network covering mobile banking and SMS, WeChat, Internet, and telephone banking. The number of accounts opened by each channel ranks among the top in China Rural Commercial Bank. The Bank actively promoted the concept of “green office, energy conservation and environmental protection” and integrated it into the construction and operation of office premises and business outlets. We vigorously promoted the concept of low-carbon and environmentally-friendly operation, fostered employees’ awareness of environmental protection, and actively carried out green public welfare activities, striving to become a resource-saving and environment-friendly bank.

(3) Actively Fulfilling Social Responsibilities and Achieving a Harmonious and Win-Win Situation

The Bank formulated a special financial consumer protection and management approach, adhered to the principle of “people-oriented, service-oriented,” and stuck to the principle of voluntariness, equality, fairness, lawfulness, and honesty and credit, and safeguarded the legal rights and interests of banking consumers according to law. The Bank launched a variety of theme promotion activities, including the ones regarding currency finance knowledge, personal credit information, prevention of telecommunication network fraud, and Internet finance security on campus, and organized financial knowledge popularization and salon activities to actively protect consumer rights and interests. We will earnestly fulfill our responsibilities for the national economy and people’s livelihood and proactively protect the rights and interests of consumers.

Relying on the Sun Public Welfare Foundation platform, the Bank actively participated in public welfare undertakings and fulfilled its “corporate citizenship” obligations, accumulatively spending RMB 6.6 million on donations. The Bank’s three major brand projects (“Sun Silent Love (太陽·無聲的愛)”, “Sun·Under the Banyan Trees (太陽·同在榕樹下)” and the Old Revolutionary District Assistance Project), the Bank helped 150 children, 90 severe patients, 122 students, donated RMB0.2 million, and served 6,300 of the elderly. The Bank won “Annual Project Award” in the 7th China Public Service Festival. In addition, the Bank organized and carried out thousands of people’s charity walks, cross-border charity income cooperation projects, and online volunteer activities.

The Bank attaches great importance to corporate social responsibility. Based on the Sun Charity Foundation, it launched the three major brand project innovation charity cooperation platform, built a “public interest + finance” ecological circle, legally safeguarded the legitimate rights and interests of banking consumers, and actively built a harmonious interest of relevant body relations groups, promoting inclusive finance and contributing to the transformation and development of the real economy.

Report of the Board of Directors

XXXII. SUBSEQUENT EVENTS

The Bank completed the issuance of the first tranche of the tier-two capital bonds of 2018 (the "Bonds") in the size of RMB10 billion on March 23, 2018. The Bonds are ten-year fixed rate bonds with a coupon rate of 4.9%, and are conditionally redeemable on the last day of the fifth year by the issuer who has the right to redeem the Bonds at par value in whole or in part upon obtaining the approval from relevant regulatory authorities. The par value of the Bonds is RMB100 with an issuing price of RMB100.

After deducting relevant issuance expense, all the proceeds raised from the issuance of the tier-two capital bonds by the Bank will be used to replenish the capital of the Bank pursuant to the applicable laws and as approved by the competent authorities.

XXXIII. OTHERS

As far as the Board of Directors is aware, the Bank has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Bank.

The Bank has adopted a code of conduct on terms no 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 as its code governing securities transactions conducted by its Directors and Supervisors and relevant employees. After having made inquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the above code during the Reporting Period. The Bank was not aware that any relevant employee had breached the code.

During the Reporting Period, the Bank was not aware that any shareholders had waived or agreed to any arrangement to waive dividends

During the Reporting Period, none of the Directors waived or agreed to relevant arrangement to waive remuneration.

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

During the Reporting Period, there were no significant contracts entered into between the Bank or any of its subsidiaries and a controlling Shareholder or its subsidiaries.

During the Reporting Period, the Bank or any of its subsidiaries had not accepted services provided by a controlling shareholder or its subsidiaries.

By order of the Board

Wang Jikang

Chairman

Report of the Board of Supervisors

In 2017, the board of supervisors of the Bank (hereinafter referred to as “the Board of Supervisors”), in accordance with the Company Law, the “Guidelines for Corporate Governance of Commercial Banks” and the Articles of Association, upheld the principle of “improving corporate governance and strengthening performance supervision”, standardizing organization and behaviour, making efforts to improve the efficiency of supervision, and continuously strengthening risk monitoring to ensure and safeguard the legitimate rights and interests of the Shareholders, creditors, Company and employees.

I. BASIC SITUATION OF THE BOARD OF SUPERVISORS

Changes in personnel: During the Reporting Period, there were no personnel changes in the Board of Supervisors and the Audit Committee and Nomination Committee thereunder. As of December 31, 2017, the Bank had a total of 9 Supervisors, including 3 employee Supervisors, shareholder Supervisors and external Supervisors. Both the Audit Committee and Nomination Committee under the Board of Supervisors consist of 5 members, and the chairmen are served by external Supervisors.

Institutional development: During the Reporting Period, the “Rules of Procedures for the Board of Supervisors of Guangzhou Rural Commercial Bank” and the “Rules of Procedures for the Audit Committee of the Board of Supervisors of Guangzhou Rural Commercial” were revised in accordance with the Company Law, the Articles and relevant requirements of the banking regulatory authorities. The “Procedures for Serving the Supervisors of Guangzhou Rural Commercial Bank” was formulated to better serve the supervisors and promote their full supervisory role. The Board of Supervisors also drafted the “Measures for the Performance of the Board of Supervisors on the Performance of Senior Management and its Members” to strictly perform their supervisory duties and improve corporate governance.

Enhancement of self-construction: During the Reporting Period, the Bank adhered to fulfilling the duties of Supervisors to improve the efficiency of supervision, strengthened the supervisory duty training mechanism, and conducted field training; effectively carried out supervision and management, strengthened the linkage between the internal and external relations, reported meeting information on schedule, organized the supervision and inspection on the management such as the standardization of land properties, salary annuities, responsible employee performance and business expenses, actively implemented the work requirements of the Municipal Party Committee in respect of conducting research and investigations to promote the spirit of the 19th National Congress, and did a good job in the supervision and evaluation of the responsibility system of the party conduct and anti-corruption; reported the information related to operation, management and material matters of the Bank, circulated the updates and changes of policies, regulations and systems in a timely manner and strengthened the mechanism of communication among Supervisors to ensure that the Supervisors can get access to the operating information of the industry in a timely manner, thereby enhancing the accuracy of duty performance; reinforced the special committees, strengthened the sit-in mechanism of external Supervisors, performed on-site supervision and inspection on the institutions of the Bank within and outside of Guangdong Province, and carried out special studies on “green finance” through discussion with relevant departments of the Bank to strengthen the supervision on management of daily operation; improved the performance tracking of Supervisors, conducted assessment on the annual performance of supervisors in an objective and scientific manner to stimulate the initiative of supervisors in duty performance.

During the Reporting Period, all members of the Board of Supervisors were able to diligently perform their duties, actively participate in meetings, carefully consider the resolutions, conduct in-depth investigations and research, regularly participate in training, and continuously improve their ability to perform duties.

Report of the Board of Supervisors

II. MEETINGS OF THE BOARD OF SUPERVISORS

Meetings of the Board of Supervisors: During the Reporting Period, the Board of Supervisors convened five meetings in total, considered and approved seven resolutions including the 2016 Annual Working Report of the second Board of Supervisors, the 2016 Performance Evaluation Report of the Board and the Board of Supervisors, the 2016 Work Report on Internal Audit and the 2017 Work Plan, the Rules of Procedures for the Board of Supervisors, the Amendments to the Rules of Procedures for the Audit Committee of the Board of Supervisors and the audit opinions on the financial responsibilities of Comrade Wu Huiqiang during his tenure of office.

Meetings of the committees: During the Reporting Period, the Audit Committee under the Board of Supervisors convened three meetings to considered three resolutions including the resolutions in relation to the 2016 working report of the Audit Committee under the second session of Board of Supervisors, 2016 working report of internal audit and 2017 working plan, and the audit opinion on economic responsibility of Mr. Wu Huiqiang during his term of office.

During the Reporting Period, the Nomination and Remuneration Committee under the Board of Supervisors convened one meeting to consider two resolutions including the 2016 working report of the Nomination Committee under the second session of Board of Supervisors and the assessment report on performance of supervisors in 2016.

III. MAJOR WORKS

During the Reporting Period, in accordance with the relevant laws, regulations and regulatory requirements of China and the requirements of Articles of Association of the Bank, the Board of Supervisors continued to carry out in-depth supervision based on the strategic objectives and core missions of the Bank.

Performance supervision: During the Reporting Period, the Board of Supervisors continued to deepened the performance supervision, strengthened the supervision on the process of duty performance, and improved the performance assessment system of the Board of Directors, senior management and their members. By delegating the supervisors to attend the meetings of the Board of Directors, the party committee, general office and major business lines, the Board of Supervisors performed on-site supervision on the decision making process of relevant operation matters, recorded the details of performance of the Board of Directors and senior management and their members, especially the opinions and recommendations proposed by the Directors and senior management members. By reviewing the self-assessment reports of the Board of Directors, special committees under the Board of Directors and Directors and the duty performance reports of senior management members, the Board of Supervisors conducted inspection to form the assessment results, and reported the assessment results and basis to the general meeting and regulatory authorities according to relevant requirements.

Financial supervision: During the Reporting Period, the Board of Supervisors reviewed the operation information reports of the Bank on a monthly basis, and provided opinions and recommendations on the changes in financial data and indicators. It also carefully reviewed regular financial reports, strengthened the communication with external auditors, carried out supervision on their audit independence and effectiveness, and strengthened the supervision on financial compliance and authenticity.

Risk management supervision: During the Reporting Period, the Board of Supervisors reviewed the reports of comprehensive risk management and assets quality on a monthly basis, performed on-site inspection of subordinated business outlets, obtained information on the impact and handling of material risk matters, and offered opinions or recommendations on strengthening risk prevention. It also paid great attention to the impact and prevention of capital market fluctuation and ethical risk cases and increased the efforts in supervision of new business risks.

Internal control supervision: During the Reporting Period, the Board of Supervisors continued to strengthened the supervision and improvement of internal control, reviewed the internal control reports on a monthly basis, strengthened internal control assessment and audit, maintained sound and effective internal control, emphasized on supervision and inspection of rectification and accountability, enhanced the continuous supervision of internal control system, and further strengthened the guidance on internal audit and internal control compliance.

IV. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

Legal operation of the Bank: During the Reporting Period, the Bank operated with standardized management in accordance with the laws, and the decision-making procedures of the Bank were legal and valid. The Board of Supervisors was not aware of any performance of the Directors and senior management members of the Bank that were in breach of the laws, regulations and the Articles of Association of the Bank or jeopardized the interest of the Bank and its shareholders.

Preparation of annual report: The procedures of preparation and audit of this annual report are in compliance with relevant laws, regulations and regulatory requirements, and this annual report gives a true, accurate and complete view of the financial positions and operating results of the Bank.

Asset acquisition and disposal by the Bank: During the Reporting Period, the Bank did not have material acquisition or disposal of assets.

Related party transactions: During the Reporting Period, the Bank entered into related party transactions in accordance with the laws and regulations of China and the relevant requirements of Articles of Association of the Bank, and was not aware of any activities that were in breach of the principles of honest and fair or jeopardized the interest of the Bank and its shareholders.

Implementation of resolutions passed at general meeting(s): The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meeting during the reporting period, and concluded that the Board of Directors had duly implemented relevant resolutions passed at the general meeting(s).

Internal control: During the Reporting Period, the Bank established a comprehensive risk management system in strict accordance with the regulatory requirements, continued to strengthen and improve the construction of internal control system, and was not aware of any material defects in respect of the completeness and rationality of the risk management and internal control mechanism and system of the Bank.

Major Events

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to refine its corporate governance mechanism and improved its corporate governance in strict compliance with laws and regulations such as the Company Law of the People's Republic of China, the Commercial Banking Law of the People's Republic of China as well as the Listing Rules and in line with actual conditions of the Bank:

For the twelve months ended December 31, 2017, the Bank had been observing and complying with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, the Bank had been observing and complying with most of the recommended best practices set out in the aforementioned code.

IMPLEMENTATION OF DISTRIBUTION FOR DIVIDENDS

Upon the approval of the 2016 AGM of the Bank, the Bank distributed final dividend for 2016 to the domestic shareholders whose names appeared on the register of members of the Bank as of June 20, 2017. Such dividend has been distributed on June 21, 2017 in cash in the amount of RMB0.20 (tax inclusive) per share and RMB1.63 billion (tax inclusive) in aggregate. The Bank did not declare any interim dividends for 2017.

MATERIAL RELATED PARTY TRANSACTIONS

As of the end of the Reporting Period, the loan balance of material related party transactions with related parties amounted to RMB7,035 million, accounting for 2.73% of the total loan of the Bank. Loans under the material related party transaction between the Bank and related parties have no negative impact on operating results and the financial position of the Bank.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the Reporting Period, there were no material legal proceedings or arbitration which has substantial impact on the operation activities of the Bank.

As of the end of the Reporting Period, pending legal proceedings in which the Bank was a defendant involved an amount of RMB6,973 million. In the opinion of the Bank, it will not have any material effect on our operating activities.

PENALTIES IMPOSED ON THE BANK AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

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

PERFORMANCE OF UNDERTAKINGS BY THE BANK AND SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARES

During the Reporting Period, no shareholders held 5% or more of the total issued shares of the Bank.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

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

MAJOR CAPITAL OPERATION

During the Reporting Period, the Bank had no major capital operation.

Report on Sannong Financial Services

Over the years, the Bank has established a foothold in the southern Guangdong Province, and adhered to the business principle of serving “Sannong”, intensively cultivated in the “Sannong” financial sector, constantly improving service capabilities and service levels and making important contributions to the promotion of farmers’ income, agricultural development, rural social stability and urban and rural construction. As of the end of 2017, the balance of agricultural loans of the Bank amounted to RMB 23,140 million, increased by RMB5,880 million or 34.04% from the beginning of the year. Deposits from village community economic organizations amounted to RMB70,370 million, increased by RMB15,520 million or 28.3% from the beginning of the year.

I. SANNONG WORKS IN 2017

The major measures of “Sannong” work taken by the Bank in 2017 are as follows:

(1) Facilitating the special task of “Realizing Hopes of Thousand Villages and Supporting the Village Community”

The task of “Realizing Hopes of Thousand Villages and Supporting the Village Community” is a long-term rural financial special task carried out by the Bank to respond to the initiative of “developing inclusive finance, livelihood finance and community finance”. Based on the “Six Goods” project village community business, the task comprehensively upgraded the single and flat rural financial services, established a comprehensive multi-level model of financial services for village community, prepared for the new rural future development, facilitated the inclusive finance and supported the revitalization of village community.

1. Conducting Good on-site inspection of village community

In recent years, the Bank organized the leadership of the headquarter and branches to visit the village community in centralized and regular ways and standardized the regular visits of village community to understand and satisfy the requirements of village community finance and actively facilitated the communication between the Bank and villages.

In 2017, the Bank’s leadership at different levels visited nearly 1,300 village communities with a coverage ratio of 100%, collected and handled over 200 opinions and recommendations proposed by the village communities, and understood the requirements of rural finance. In the process of adapting to the new situations and new changes in rural area, the Bank made innovation in its works, changed the mindset, formed a closer relationship with the villages, enhanced the service efficiency and contributed to the rural development in joint efforts.

2. Delegating good personnel to provide rural financial services

In response to the national policy of “university graduates as village officials”, the Bank delegates high-quality employees with outstanding performance to the village communities to serve as special personnel for rural financial services every year, so as to provide considerate financial services to the village officers and residents, facilitate the village officers in performing daily tasks and actively promote the implementation of village community welfare activities of the Bank.

Based on the preliminary works, the delegation of “special personnel for rural financial services” was carried out comprehensively in 2017. The first 20 “special personnel for rural financial services” have completed the special induction training, and were delegated to relevant front-line administration of village communities in Baiyun, Huangpu and Huadu to carry out relevant tasks, and delivered satisfactory results.

3. Organizing good football matches

“Thousand Villages Football Match” is a rural sports event innovated by the Bank to promote the development of football activities in rural area and improve the health of rural residents in all administrative villages of Guangzhou. The event is held in every two years since 2016 in conjunction with the development of other sports events.

After six months of matches in different areas and over a month of final tournament, the first Thousand Villages Football Championship came to a successful conclusion on January 8, 2017, and the football team from Liede Village won the championship after intensive competitions. Through well-planned event and promotion in various forms, the Thousand Villages Football Match was well recognized by the government, the rural residents, the media and the general public. “Thousand Villages Football Match” became one of the most talk-about topics in village communities with increasing reputation and positive effects.

4. Publishing a good journal

The Bank prepares a special journal on rural matters with focus on new village construction and rural economic development to provide recommendations on “Sannong” matters from the prospective of a commercial bank, which provides importance reference to the local government and basic village communities in respect of new village construction.

In 2017, the Bank successfully published the first volume of “Village Community Journal” to the rural residents, which mainly covered policy explanation, academic discussion, working progress and beauty of village with focus on demonstrating the progress and results of the project of “Realizing Hopes of Thousand Villages”.

5. Delivering good performance in social welfare

In 2017, through the Neo Sun Foundation, the Bank actively participated in rural welfare activities such as poverty alleviation, education support, support of underprivileged in rural areas and promoting the traditional rural cultures. The Bank carried out welfare activities by implementing three major charitable support projects and four types of volunteer activities and made a total charitable donation of approximately RMB6.8 million, and was awarded the 2016 Most Influential Charitable Organization in Guangzhou, the Guangzhou Outstanding Foundation, and the Responsible Brand Award in the 7th China Charity Festival in 2017, which fully evidenced the Bank’s sense of social responsibility and the eager to contributing to the society.

The three major charitable projects included “Neo Sun – Soundless Love” hearing repair activity which supported 55 hearing-impaired children; “Neo Sun – Sharing the Shade of Tree” special supporting project for village community, which supported 264 people with serious illness and 261 students; and “Neo Sun – Providing care to Old Revolutionary Base Areas” poverty alleviation project, which supported 100 children in poverty.

Report on Sannong Financial Services

The four volunteer activities included: “Soundless Love” serial volunteer activities which carried out 12 volunteer activities based on rehabilitation centers to pay attention to the rehabilitation and growth of hearing-impaired children after surgery; caring activities for disabled people which carried out four caring activities for people with Down syndrome and special children in Panyu Special Education School; series of activities for protection of traditional culture and intangible cultural heritage which carried out three welfare activities of “Mid-Autumn Festival Celebration” and gave “Cantonese Opera” performance to three village communities in Nansha which enriched the life of residents; and the elderly caring serial activities which visited and provided support to 1,500 elderly people in village communities.

6. Providing good internal services

The Bank integrated the advantageous resources of village communities. Based on the signature agricultural products, the Bank established a characteristic e-commerce platform and service network for sale of agricultural and sideline products, and provided comprehensive online financing services covering the whole process from source to terminal sales of the new rural operating model.

The Bank has established a comprehensive characteristic e-commerce platform for agricultural and sideline products named “Sun Market” which achieved satisfactory results. In 2017, the platform attracted 116 new merchants of agricultural products and completed over 80,000 sales transactions of agricultural and sideline products through special promotion, which effectively expanded the selling channels of agricultural enterprises and agricultural specialties, facilitated the development of agricultural economy and increased the income of farmers.

(2) Continuously establishing and promoting inclusive financial services channels

Currently, the Bank has formed a diverse inclusive financial services network with wide coverage comprised of operating outlets, community banks, off-bank self-service banking, community financial service station, rural financial service station, cash terminals for farmers, online banking, mobile banking and telephone banking, which connected the “last kilometer” of Sannong services. As of December 31, 2017, the Bank had 618 outlets (including 83 community banks), 558 off-line self-service banking points, 10 community financial service station, 110 rural financial service station, 44 cash terminals for farmers and approximately 2,420 ATMs in Guangzhou, which greatly satisfied the needs of inclusive financial services in Guangzhou.

As of the end of 2017, the Company had a total of 110 rural financial service stations, which exceeded the target of 100 stations. All rural financial service stations were operating in good conditions, which continuously strengthened the function of convenience services. The rural financial service stations recorded a total of 2,170,000 transactions with total amount of RMB3,862 million, and provided financial advising services to over 63,000 people.

The Bank’s cash terminals for farmers covered 44 remote village communities in 15 towns in Conghua, Nansha, Huadu, Zengcheng and Huangpu. In addition to balance check and cash withdrawal, cash remittance and transfer remittance functions were also added to the cash terminals for farmers, which effectively solved the rural residents’ problem of cash utilization by providing more convenient services. In 2017, 971 transactions were completed with total transaction amount of approximately RMB494,800.

The functions of self-service and online services are becoming more diversified, which satisfies the urban and rural residents’ needs for financial services. In addition to basic financial services, various convenient services and functions such as payment of utilities, mobile phone top-up, payment of fine for traffic violation, vehicle management, annual inspection appointment, driver’s license matters, car rental service, Yang Cheng Tong smart card and electronic ticketing service are also available.

Through the operating outlets and rural financial service stations, the Bank actively organized financial knowledge promotion activities such as “Miles Walk”, “Household Education”, “School Education” and “Community Education” in neighbouring communities and schools, in order to educate the public on financial knowledge. In 2017, the Bank organized a total of nearly 256 financial knowledge seminars and promotional activities and delivered nearly 130,000 promotional materials, which reached 110,000 customers.

(3) Optimizing and innovating “Sannong” Financial Service Products

1. Quick Bonus Loan for Rural Residents

In July 2017, the Bank launched the product of “Quick Bonus Loan for Rural Residents” specially designed for rural customers in Guangzhou. Such products takes bonus income as the major basis for approval of loan, which simplifies the complicated offline operating procedures and formalities and provides “convenient, quick and small-size” offline pure credit loan for consumption to the rural residents. As of the end of 2017, the total loan granted under the “Quick Bonus Loan for Rural Residents” product amounted to RMB21.53 million with a non-performing ratio of 0%.

2. e-Loans for Villagers

In terms of financing for favourable treatment of the farmers, the Bank’s Zhujiang Direct Selling Bank had actively promoted the “Village E-loan” project. With the help of the Bank’s advanced financing service experience, through online automated processing, bulk analysis of large data models and bulk processing of credit approval from online applications, we succeeded in broadening the financing channels for rural customers, and further satisfied the credit requirements for “Sannong”.

3. Optimizing Investment Products for “Sannong”

In 2017, the Bank continued to improve the financial wealth management product system of Zhujiang Direct Selling Bank and provided “Sannong” customers with low-threshold, high-yield and risk controllable investment channels. On the one hand, through extensive establishment of internal and external cooperation and product model innovation, financial investment can be made starting from as low as RMB 1. On the other hand, the Bank launched a series of financial products and services that are innovative, with flexible-term and are of varieties, including fund supermarkets, wealth management, and endowment insurance products. These products and services allowed “Sannong” customers to have equal opportunities in receiving advanced asset allocation services.

4. Continuous promotion of the “Sun Market” Platform

The Bank had integrated village communities resources, which leveraged on landmark agricultural products and promoted online and offline to customers within and outside the Bank through Sun Market Platform. This had effectively connected existing business resources and formed a new “Internet + Agriculture” service model. In 2017, more than 100 types of landmark agricultural products with village community features were launched covering nearly 200 villages.

5. Continue to promote agricultural chain products

The comprehensive modern agricultural financial products under the “Agriculture Chain” focuses on the development of modern agricultural industry and its sub-sector, including crop farming, aquaculture, cold chain logistics, and agricultural leisure tourism. It had focused on supporting leading agricultural enterprises in various sub-sectors such as live pig breeding, aquaculture and comprehensive agricultural industry, which provided enterprises with flexible security options such as floating mortgage of variable assets, mortgage of land contracting operation right and guarantee, which revitalized modern agriculture resources to meet a number of corporate financing needs that had effectively supported modern agricultural development.

Report on Sannong Financial Services

The Bank had considered the development of the agricultural industry chain as one of the key areas for its business development. By relying on leading agricultural enterprises, it actively provided upstream and downstream customers in the industrial chain with a package of financial services such as credit granting, settlement, fund collection, wealth appreciation, and product sales. As of the end of 2017, the Bank successfully added 10 new agricultural industrial chains.

6. To continuously optimize “Wealth Management Loan for Sun Villagers”

As the loan product featuring by the Bank to supporting the development of new rural construction in Guangzhou, “Wealth Management Loan for Sun Villagers” was innovatively created to use the homestead real estate as the underlying of the mortgage. This had focused on the financing needs of rural infrastructure construction, improving properties of villagers and peasant households getting rich, which effectively satisfied the financial services needs of the village residents for getting rich through operating enterprises and revitalized the fixed assets being core for the village residents. Since its launch, the target group of products covered all village tribes in Guangzhou and had provided a wide range of rural comprehensive financial services for villagers at large.

(4) Professional team to support the development of leading agricultural enterprises

In terms of financial support for the development of leading agricultural enterprises, the Bank established a professional team to bring together high-quality financial talents, preferred agricultural leading enterprises, and listed companies to promote the rapid growth of credit assets. As of the end of 2017, the Bank had 14 leading agricultural leading enterprises in the country, with a credit balance of RMB 2.641 billion, including 5 national leading agricultural enterprises, 6 provincial agricultural leading enterprises, and 3 listed company customers. In addition, there were two customers that came from the largest aquatic products wholesale market, national first-class fishing ports and other large-scale farmers/fish products wholesale market customers, with a credit balance of RMB 868 million.

(5) Precise poverty alleviation through financing to build benchmarking project

The Bank took advantage of its platform and actively introduced local agricultural leading enterprises to poverty-relief work in Qingyuan City. A precise poverty alleviation greenhouse planting industry support project was designed, which provided targeted credit support to build 100 acres of high value-added vegetable greenhouses ensuring poor households can end and not returning back to poverty. The project was basically completed, which was a benchmark project for its precise poverty alleviation through financing and a role model that the Bank has focused on in poverty alleviation through industrial operation.

The Bank provided e-commerce services for Conghua Lianma Village (a village designated for poverty alleviation), and promoted local feature products to customers through online demonstration and sales. In terms of offline experience, combined with O2O offline payment services, we used the offline scan code for discounts to offer customers offline, which expanded sales channels and effectively increase income to farmers.

(6) “Internet + Finance” to assist in the development of “Sannong”

1. Online service channels were upgraded to provide a better service experience

The Bank optimized and upgraded the existing product service platform, which launched a new version of Zhujiang Direct Selling Bank and mobile banking services, and continuously improved the financial services level of the Bank’s “Sannong”. The new version of Zhujiang Direct Selling Bank applied biometrics, living body detection, OCR and other technologies, and materialised online opening of accounts across the country. This effectively alleviated the geographical limitations of rural areas due to the small number of banking outlets and the need for customers to access banking outlets in order to conduct banking operations. It also resolved the need for non-cardholders of the Bank to deal with our investment and financing business at ease.

The new version of mobile banking is customer-oriented and features a new upgrade version of the original mobile banking function, providing a better experience, safer and more convenient services for the Bank's "Sannong" customers' fund management, investment and wealth management, and utilities payment.

2. Mobile payment products were enriched to meet the mobile payment needs in rural areas

In 2017, the Bank created the "Sun Intelligent Pay" payment brand, including online payment for wealth management products, fund investment, mobile recharge, online shopping, movie ticket purchase, payment of utility bills, payment of traffic offenses, payment of tuition, and other remote payment functions. The on-site payment functions such as offline scan code payment, offline payment, and cloud flash payment. These products greatly satisfied the mobile payment needs of residents and merchants in rural areas in terms of financial services and daily living consumption.

3. Offline experience store was established to create a new retail model for agricultural products

By relying on the Sun Market platform, the Bank created an offline experience shop and brought the commercial agricultural products into the outlet halls. The introduction of fruit self vendoring equipment boosted high-quality agricultural products to further expand their sales and created a new model of agricultural retail sales.

On the other hand, the Bank launched the first Yuexiang Sweet O2O Experience Farm in 2017, where customers can pick fruit on site. Through "scan code offline to enjoy discount", "on-site orders with collection on-site", online and offline sales were materialised at the same time for the agricultural products with village features, which strengthened the cooperation between the Sun Market platform and the farmers of the agricultural enterprises.

II. WORK PLAN FOR 2018

In 2018, the Bank will continue to uphold the agricultural-oriented business tenet of serving Sannong to further strengthen the efforts in inclusive financial work in respect of Sannong, promote the construction of rural financial service stations, continue to support the development of leading agricultural enterprises, and build an integrated and three-dimensional Sannong financial service system with the characteristics of the Bank.

(1) To further pursue the special action of "Thousand villages to assist in the village community for fulfilling the mission"

The Bank will continue to conduct its activities and "visit the village community". In the first half of 2018, it is planned to complete regular visits to the village communities under its jurisdiction by the branches, and to complete the visit of the head office of the head office to key village communities in the districts before the third quarter of 2018. Through visiting each level and department of the Bank, the opinion of the public was heard. In the process of adapting to the new situation and changes in the rural areas, we will innovate work ideas, change philosophies and approaches, bring closer the distance between farmers and farmers, and increase service effectiveness.

Based on the previous experience of piloting rural financial services commissioners, we will continue to select the second batch of qualified employees to provide services to the village community station to further improve the assessment and management mechanism of rural financial services commissioners, and strengthen the normalization and professionalism of commissioners. Training arrangements for grass-roots organizations, villagers to provide support and financial services to better participate in the construction of new rural areas.

Report on Sannong Financial Services

Based on the sound foundation of the first Thousand Village Football Match, we will plan and organize the second Thousand Village Football Match. First, the Bank will capitalise on the assistance of the annual brand service company, domestic well-known sports event planning companies, and the integration of support from the Bank's own media, local sports platforms, handheld new media in creating a good brand reputation for this event. This had attracted more village committee villagers and the public's attention and participation, and enhanced the corporate brand image of the Bank. Second, the Bank will further strengthen the cooperation with provincial and municipal sports systems and the Football Association units. Based on the operation model of the first football game, the Bank will coordinate the selection activities in each district, which will enhance the overall brand image packaging and promote the effect. The preparation for the establishment of the Thousand Village Football Team and its football club management will be improved. At the same time, the Bank had accelerated the building of the "Thousands Village Football" brand system. Application for registration of patents to form the unique sports brand of the Bank was submitted, which formed the unique sports brand of the Bank and enriched the corporate brand connotation.

By leveraging from the platform of the Sun Charity Foundation, the Bank will continue to carry out series of activities such as "promoting the traditional culture of the villages communities", "special assistance for the village community" and "community festivals and respect for the elderly". The Bank will practice rural public welfare undertakings, support rural disadvantaged groups, and assist new rural construction. The Bank will make full use of resources such as annual village construction funds and continue to promote the construction of village projects. The Bank will give funding support to village construction projects that are well-established long term with relatively large-scale of inventory, or expand the village cooperatives of greater business potentials.

By relying on the "Sun Market" platform, we will build an e-commerce sales platform and service network for agricultural ancillary products around the upstream and downstream of the rural industrial chain. We will track and lock down new rural business models such as farmers + bases and farmers + companies from source to end sales so as to provide financing and financial consulting services.

On the basis of the current situation, the Bank will continue to focus on the rural economy and continue to publish its special village-community magazine aiming on issues in various districts and towns. The magazine is for the reference of internal operations but will also be distributed in all villages and cities, focusing on the construction of new rural area and the development of rural economy from the perspective of the commercial bank.

(2) Continue to develop in-depth business strategy for "Sannong"

In 2018, the Bank will accelerate the process of product and business innovation, improve comprehensive service capabilities, and continue to consolidate and expand the Bank's dominant position in supporting agriculture. The Bank will continue to encourage and support the development of agriculture-related industries such as agriculture, animal husbandry, forestry, fishery, and agricultural ancillary products processing industries. It is proposed that the scale of agriculture-related loans in 2018 will continue to grow and the growth rate will need to exceed the average growth rate of all loans. At the same time, it will accelerate the progress of agriculture-related businesses, give priority to meeting the financing needs of agriculture-related businesses, and optimize credit granting procedures, opening up green channels for agriculture-related loans, and ensuring the timeliness of financial services.

(3) Endeavour in support of loans for agriculture to consolidate business foundation

Through timely updating of project information, the Bank acquired understandings from many channels such as "District Government, Town Street, and Village Community" and captured opportunities to formulate short-term and mid-to-long-term goals, establish key project libraries, provide normal services, and focus on research and progress. At the same time, the Bank will prepare a list of key agricultural leading enterprises in Guangdong Province and Guangzhou Municipality, and actively promotes the coverage of financial services of leading agricultural enterprises.

(4) Establish a three-dimensional and extensive channel for comprehensive financial services

First, according to the government's "Seven-One" standard requirement, a new rural financial service station has been built, and on this basis, appropriate features of financial services have been added. Second, the Bank will rationalise its profile on self-owned properties and select suitable properties for inclusion in the list of establishing rural financial service stations and community banks. Third, in combination with the transformation of outlets, the grid sites with low yields will be reduced to rural financial service stations in order to reduce operating costs. A list of transaction settlement types and other nearby outlets that are accepted as businesses is included in the list of establishing rural financial service stations and community banks. Fourth, according to the production capacity of rural financial service stations, corresponding assessment plans will be formulated so as to give full play to the role of performance assessment and thereby increasing the Bank's revenue. Fifth, the Bank has to ensure the operation of rural financial service stations and give full play to their service functions to facilitate people and benefit the people. At the same time, in conjunction with the characteristics of the local rural economy, the Bank will focus on building a number of benchmarking sites for rural financial service stations, and will step up publicity and promotion to achieve good publicity and demonstration effects.

(5) Improve innovative service capabilities

Under the finance and internet finance gaining popularity, the Bank will timely innovate the financial service concept of "Sannong". On the basis of continuous optimization of existing products, combining with the latest form of "Sannong" work, the Bank will explore and innovate new types of agriculture-related credit products and financial benefits Service products, which will continue to improve the "deposit, loan, network, card, investment" product system, and continuously improve the Bank's "Sannong" financial services from the product basis.

(6) Establish the "Sun Elderly Village Association"

The Bank will strengthen all-round cooperation and interaction with the villagers and villagers, which will consolidate good jobs in various rural financial services. The head office is equipped with special financial resources. First the Bank will implement to follow-up management of the 13 "Sun Elderly Village Associations" that have been established, promote the organization of daily activities, optimize the operation forms, and further enhance the influence of the Association in the local area. Second, the Bank will improve the operation and management mechanism of the "Sun Elderly Village Association". On the basis of financial information becoming more popular in rural areas, the Bank will a platform to promote exchanges between the bank village and other villages, and to assist Sun Elderly Village Association" in carrying out charitable activities. Third, the Bank will continue to mobilize all business organizations to jointly build a new batch of "Sun Elderly Village Association" with local villages and towns and district street units, thereby striving for wider geographical coverage. The Bank will actively explore new sustainable rural financial services that can take into account both public welfare and commercial channels in consolidating and expanding the village community business for the Bank.

(7) Practicing rural public welfare undertakings and genuinely contributing to the village communities

1. Promoting the traditional culture of the villages communities

The Bank promotes the traditional culture of villages communities and non-physical cultural heritages through Sun Charity Foundation. The items sponsored include, but are not limited to Dragon Boat Festival canoe boat racing, Pineapple Birthday, Qi Qiao Festival and other activities.

Report on Sannong Financial Services

2. Enthusiastic in elderly and poverty alleviation activities at village communities

The Bank is concerned about helping vulnerable rural populations and promoting traditional Chinese virtues, including but not limited to sending gratuities to elderly villagers living alone. We will install the “Peace Bell” to all elderly villagers living alone. Financial donations will be given to the poor families in the village communities. All kinds of elderly entertainment equipment will be provided to the village social center for the elderly.

3. Support village community public facilities repair renovation

The Bank will support, including, but not limited to, the repair and renovation of village public facilities (such as parks, cultural centers, sports venues, reading rooms, billboards, etc.), and the purchase and renovation of public cultural and sports equipment in village communities, and strengthen the Business promotion.



Independent Auditor's Report



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the shareholders of Guangzhou Rural Commercial Bank Co., Ltd.

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

OPINION

We have audited the consolidated financial statements of Guangzhou Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 119 to 223, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards of Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with *the Code of Ethics for Professional Accountants* (the "Code") issued by the International Ethics Standards Board for Accountants ("IESBA"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="164 437 766 463">Impairment assessment of loans and advances to customers</p> <p data-bbox="164 467 766 901">The assessment of impairment of loans and advances to customers involves significant judgement. The Group adopts an individual impairment assessment approach for individually significant loans and impaired loans which are not individually significant; and a collective impairment assessment approach for loans not individually significant or not individually impaired. Under the collective approach, assessment of future cash flows for loan portfolios is based on the historical loss experience of loans with similar credit risk characteristics, with adjustments based on the impact from changes of and uncertainties in the macro-economic environment. The future cash flows of loans without collateralised or guarantees, or loans that are not adequately collateralised, are subject to higher uncertainties.</p> <p data-bbox="164 935 766 1209">Since impairment assessment involves judgement and assumptions, and in view of the significance of the amount (as at 31 December 2017, the aggregated gross balances of loans and advances to customers amounted to RMB294,013 million, representing 40% of total assets, and the impairment allowance for loans and advances to customers amounted to RMB8,312 million), the impairment of loans and advances is considered a key audit matter.</p> <p data-bbox="164 1244 766 1300">Relevant disclosures are included in notes 23 and 46 (a) to the consolidated financial statements.</p>	<p data-bbox="794 467 1380 648">We evaluated and tested the effectiveness of the design and implementation of key controls relating to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including testing of relevant data quality and information systems.</p> <p data-bbox="794 683 1380 864">We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan classification, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.</p> <p data-bbox="794 899 1380 1151">We assessed the collective impairment model and considered management's assumptions on migration rate, loss ratio and impact of macro-economic changes for various types of loan portfolios. We evaluated the Group's modification of parameters and assumptions used in the collective impairment model and compared them with historical loss data for loan portfolios, observable economic data, market information and industry trends.</p> <p data-bbox="794 1185 1380 1366">We tested the discounted cash flow models and the related assumptions used in the individual impairment assessments by assessing the amount, timing and likelihood of estimated future cash flows, including cash flows from collateral. We compared the assumptions with available external information.</p> <p data-bbox="794 1401 1380 1487">We evaluated and tested the design and operating effectiveness of internal controls relating to disclosures of credit risk and impairment allowance.</p>

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="201 437 580 459">Valuation of financial instruments</p> <p data-bbox="201 470 804 685">The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, particularly those require significant unobservable inputs, usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p> <p data-bbox="201 720 804 1155">As at 31 December 2017, financial assets measured at fair value amounted to RMB 84,096 million, representing 11% of total assets. Financial instruments which require significant unobservable inputs in estimating fair value, and hence categorised within level 3 of the fair value hierarchy, involve higher uncertainty in their valuation. As at 31 December 2017, 38% of financial assets measured at fair value were categorised within level 3. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation involving significant judgement for fund investments, illiquid asset-backed securities, asset management plans and wealth management products, the valuation of financial instruments is considered a key audit matter.</p> <p data-bbox="201 1190 804 1246">Relevant disclosures are included in notes 21, 24(c) and 47 to the consolidated financial statements.</p>	<p data-bbox="831 470 1430 556">We evaluated and tested the design and operating effectiveness of key controls related to valuation of financial instruments.</p> <p data-bbox="831 590 1430 776">We evaluated the valuation techniques, inputs and assumptions through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p> <p data-bbox="831 810 1430 996">For valuations which used significant unobservable inputs, such as asset management plans, we involved internal valuation specialists in assessing the model used, re-performing independent valuations, and analysing the sensitivities of valuation results to key inputs and assumptions.</p> <p data-bbox="831 1030 1430 1121">Furthermore, we evaluated and tested the design and operating effectiveness of internal control relating to disclosures of fair value.</p>

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of structured entities	
<p>The Group has managed and invested in various structured entities, such as wealth management products, trust and asset management plans. The Group determines whether to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration power arising from rights, variable returns, and link between power and returns.</p> <p>The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, whether to consolidate these structured entities is considered a key audit matter.</p> <p>Relevant disclosures are included in notes 40 and 41 to the consolidated financial statements.</p>	<p>We evaluated and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity.</p> <p>We assessed the Group's analysis and conclusions on whether or not it controls the structured entities based on the Group's analysis on its power over the structured entities, and the magnitude and variability of variable returns from its involvement with the structured entities. We also assessed whether the Group had legal or constructive obligation to absorb any loss of the structured entities by reviewing the relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to the structured entities, as well as the fairness of transactions between the Group and the structured entities.</p> <p>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.</p>

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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 to 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 Benny Bing Yin Cheung.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

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

	Notes	Year ended 31 December	
		2017	2016
Interest income	5	29,186,446	23,385,518
Interest expense	5	(17,491,919)	(12,714,698)
NET INTEREST INCOME		11,694,527	10,670,820
Fee and commission income	6	2,568,556	3,192,636
Fee and commission expense	6	(277,169)	(216,248)
NET FEE AND COMMISSION INCOME		2,291,387	2,976,388
Net trading income	7	1,299,396	986,404
Net (losses)/gains on financial investments	8	(1,639,034)	450,807
Other income, gains or losses	9	(167,616)	155,369
OPERATING INCOME		13,478,660	15,239,788
Operating expenses	10	(5,164,194)	(5,457,185)
Impairment losses on assets	13	(787,851)	(3,259,757)
PROFIT BEFORE TAX		7,526,615	6,522,846
Income tax expense	14	(1,635,624)	(1,416,500)
PROFIT FOR THE YEAR		5,890,991	5,106,346
Attributable to:			
Equity holders of the parent company		5,708,718	5,025,586
Non-controlling interests		182,273	80,760
		5,890,991	5,106,346
EARNINGS PER SHARE (RMB yuan)			
— basic and diluted	17	0.63	0.62

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

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

	Notes	Year ended 31 December	
		2017	2016
Profit for the year		5,890,991	5,106,346
Other comprehensive income (after tax, net):			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent years:</i>			
Remeasurement gains on defined benefit plans	37	34,350	22,218
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>			
Net losses on available-for-sale financial assets	37	(1,309,889)	(1,492,939)
Subtotal of other comprehensive losses for the year		(1,275,539)	(1,470,721)
Total comprehensive income for the year		4,615,452	3,635,625
Total comprehensive income attributable to:			
Equity holders of the parent company		4,433,179	3,554,865
Non-controlling interests		182,273	80,760
		4,615,452	3,635,625

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

Consolidated Statement of Financial Position

31 December 2017

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

	Notes	31 December	
		2017	2016
ASSETS			
Cash and balances with central bank	18	103,767,440	83,022,942
Deposits with banks and other financial institutions	19	14,443,630	18,380,847
Placements with banks and other financial institutions	20	6,606,541	3,910,819
Financial assets at fair value through profit or loss	21	15,270,181	35,980,378
Reverse repurchase agreements	22	76,393,395	79,963,092
Loans and advances to customers	23	285,701,697	237,934,771
Financial investments	24	219,698,877	190,072,917
Property and equipment	25	2,012,502	2,025,349
Goodwill	26	382,216	—
Deferred tax assets	27	3,634,745	3,273,111
Other assets	28	7,802,436	6,386,889
TOTAL ASSETS		735,713,660	660,951,115
LIABILITIES			
Due to central bank		1,130,600	537,000
Deposits from banks and other financial institutions	29	43,470,165	33,580,932
Placements from banks and other financial institutions	30	3,572,433	1,798,321
Repurchase agreements	31	23,829,470	48,597,796
Due to customers	32	488,671,856	423,742,038
Income tax payable		563,686	1,218,049
Debt securities issued	33	101,383,777	92,295,376
Other liabilities	34	24,613,954	21,341,900
TOTAL LIABILITIES		687,235,941	623,111,412
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	35	9,808,269	8,153,419
Reserves	36	21,121,839	15,380,377
Retained profits	36	15,114,407	12,311,444
		46,044,515	35,845,240
Non-controlling interests		2,433,204	1,994,463
TOTAL EQUITY		48,477,719	37,839,703
TOTAL EQUITY AND LIABILITIES		735,713,660	660,951,115

Approved and authorised for issue by the Board of Directors on 26 March 2018.

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

Wang Jikang
Chairman

Zhang Dong
Chief Financial Officer

Xiao Shilian
Head of Financial Department

Consolidated Statement of Changes In Equity

Year ended 31 December 2017

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

	Attributable to equity holders of the parent company										
	Issued share capital	Reserves						Retained profits	Total	Non- controlling interests	Total equity
		Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans	Subtotal				
Balance at 1 January 2017	8,153,419	4,839,809	3,200,146	8,020,433	(713,828)	33,817	15,380,377	12,311,444	35,845,240	1,994,463	37,839,703
Profit for the year	—	—	—	—	—	—	—	5,708,718	5,708,718	182,273	5,890,991
Other comprehensive Income (note 37)											
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	(1,309,889)	—	(1,309,889)	—	(1,309,889)	—	(1,309,889)
— Remeasurement gains on defined benefit plans	—	—	—	—	—	34,350	34,350	—	34,350	—	34,350
Total comprehensive income	—	—	—	—	(1,309,889)	34,350	(1,275,539)	5,708,718	4,433,179	182,273	4,615,452
Issue of shares	1,654,850	5,600,957	—	—	—	—	5,600,957	—	7,255,807	—	7,255,807
Acquisition of non-controlling interests	—	(32,199)	—	—	—	—	(32,199)	—	(32,199)	(31,601)	(63,800)
Acquisition of a subsidiary (note 38)	—	—	—	—	—	—	—	—	—	329,553	329,553
Shareholders' donation (note 34(c))	—	173,172	—	—	—	—	173,172	—	173,172	—	173,172
Appropriation to surplus reserve (i)	—	—	577,286	—	—	—	577,286	(577,286)	—	—	—
Appropriation to general reserve (ii)	—	—	—	697,785	—	—	697,785	(697,785)	—	—	—
Dividends declared and paid (note 16)	—	—	—	—	—	—	—	(1,630,684)	(1,630,684)	(41,484)	(1,672,168)
Balance at 31 December 2017	9,808,269	10,581,739	3,777,432	8,718,218	(2,023,717)	68,167	21,121,839	15,114,407	46,044,515	2,433,204	48,477,719

(i) Includes the appropriation made by subsidiaries in the amount of RMB40,200 thousand.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB88,517 thousand.

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

Consolidated Statement of Changes In Equity
Year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to equity holders of the parent company										
	Issued share capital	Reserves						Retained profits	Total	Non- controlling interests	Total equity
		Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans	Subtotal				
Balance at 1 January 2016	8,153,419	4,696,696	2,690,094	6,665,655	779,111	11,599	14,843,155	10,781,372	33,777,946	1,918,184	35,696,130
Profit for the year	—	—	—	—	—	—	—	5,025,586	5,025,586	80,760	5,106,346
Other comprehensive income											
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	(1,492,939)	—	(1,492,939)	—	(1,492,939)	—	(1,492,939)
— Remeasurement gains on defined benefit plans	—	—	—	—	—	22,218	22,218	—	22,218	—	22,218
Total comprehensive income	—	—	—	—	(1,492,939)	22,218	(1,470,721)	5,025,586	3,554,865	80,760	3,635,625
Capital contributed by non-controlling shareholders	—	(2,293)	—	—	—	—	(2,293)	—	(2,293)	30,597	28,304
Shareholders' donation (note 34(c))	—	145,406	—	—	—	—	145,406	—	145,406	—	145,406
Appropriation to surplus reserve (i)	—	—	510,052	—	—	—	510,052	(510,052)	—	—	—
Appropriation to general reserve (ii)	—	—	—	1,354,778	—	—	1,354,778	(1,354,778)	—	—	—
Dividends declared and paid (note 16)	—	—	—	—	—	—	—	(1,630,684)	(1,630,684)	(35,078)	(1,665,762)
Balance at 31 December 2016	8,153,419	4,839,809	3,200,146	8,020,433	(713,828)	33,817	15,380,377	12,311,444	35,845,240	1,994,463	37,839,703

(i) Includes the appropriation made by subsidiaries in the amount of RMB25,624 thousand.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB164,778 thousand.

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

Consolidated Statement of Cash Flows

Year ended 31 December 2017

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

	Notes	Year ended 31 December	
		2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		7,526,615	6,522,846
Adjustments for:			
Depreciation and amortisation	10	513,965	512,785
Depreciation of investment properties		22,179	22,083
Net trading income	7	(1,299,396)	(986,404)
Interest income on financial investments		(10,319,369)	(7,189,419)
Impairments losses on assets	13	787,851	3,259,757
Unrealised foreign exchange losses		194,189	13,482
Interest expense on debt securities		5,378,132	2,361,432
Accreted interest on impaired loans	5	(88,050)	(137,240)
Net losses/(gains) on disposal of available-for-sale financial assets	8	1,640,902	(449,023)
Dividend income from available-for-sale financial assets	8	(1,868)	(1,784)
Net losses/(gains) on disposal of property and equipment	9	33,033	(578)
		4,388,183	3,927,937
Net decrease/(increase) in operating assets:			
Balances with central bank		(12,809,794)	(6,140,009)
Deposits with banks and other financial institutions		4,451,691	3,868,156
Placements with banks and other financial institutions		(1,812,904)	(2,273,822)
Reverse repurchase agreements		(1,541,952)	(3,981,050)
Loans and advances to customers		(47,099,734)	(24,652,780)
Other assets		(336,955)	(430,336)
		(59,149,648)	(33,609,841)
Net increase/(decrease) in operating liabilities:			
Due to central bank		593,600	(469,000)
Deposits from banks and other financial institutions		9,887,535	(70,482,437)
Placements from banks and other financial institutions		1,839,216	788,194
Repurchase agreements		(24,768,326)	37,191,869
Due to customers		59,422,746	32,562,299
Other liabilities		3,306,650	5,524,925
		50,281,421	5,115,850
Net cash flows used in operating activities before tax		(4,480,044)	(24,566,054)
Income tax paid		(2,210,906)	(2,049,982)
Net cash flows used in operating activities		(6,690,950)	(26,616,036)

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

Consolidated Statement of Cash Flows
Year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	Year ended 31 December	
		2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other long-term assets		(500,163)	(396,690)
Proceeds from disposal of property and equipment		158,794	39,617
Cash paid for investments		(338,635,400)	(521,962,414)
Proceeds from sale and redemption of investments		330,092,613	480,159,509
Acquisition of a subsidiary	38	130,575	—
Dividends received	8	1,868	1,784
Return on investments		9,299,441	7,718,563
Net cash flows from/(used in) investing activities		547,728	(34,439,631)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		7,255,807	—
Acquisition of non-controlling shareholders		(63,800)	—
Capital contributed by non-controlling shareholders		—	28,304
Shareholders' donation	34(c)	140,911	156,529
Proceeds from issuance of debt securities		186,237,340	168,761,852
Repayment of debt securities issued		(178,243,275)	(98,900,677)
Interest paid on debt securities		(4,377,526)	(1,595,633)
Dividends paid on ordinary shares		(1,630,684)	(1,630,684)
Dividends paid on non-controlling shareholders		(40,789)	(35,078)
Net cash flows from financing activities		9,277,984	66,784,613
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		3,134,762	5,728,946
Cash and cash equivalents at beginning of the year		106,196,081	100,429,107
Effect of exchange rate changes on cash and cash equivalents		(83,613)	38,028
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	39	109,247,230	106,196,081
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		18,721,244	16,175,417
Interest paid		(11,887,046)	(10,163,278)

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

Notes to Financial Statements

31 December 2017

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

1 CORPORATE INFORMATION AND STRUCTURE

Guangzhou Rural Commercial Bank Co., Ltd. (the “Bank”), whose predecessor was established in 1952, underwent a series of reforms in subsequent years. Under the “Approval Regarding the Opening of Guangzhou Rural Commercial Bank Co., Ltd.” (Yinjianfu No. [2009]484) issued by the China Banking Regulatory Commission (the “CBRC”), Guangzhou Rural Commercial Bank Co., Ltd. was incorporated on 9 December 2009.

The Bank obtained its finance permit No.B1048H244010001 from the CBRC and its business license of Unified Social Credit code No.914401017083429628 from the Administration for Industry and Commerce of Guangzhou Municipality. The legal representative is Wang Jikang and the registered office is located at No.9 Yingri Road, Huangpu District, Guangzhou, the PRC.

The principal activities of the Bank comprise taking deposits from the general public (including domestic and foreign currency), granting short, medium and long-term loans (including domestic and foreign currency), domestic and international settlements, bills acceptance and discounting, providing agency services for issuing/redemption and underwriting of government securities, trading government and financial bonds, inter-bank placements (including domestic and foreign currency), bank cards (including debit cards and credit cards) business, providing agency services of payment collection and insurance agency service, providing safe locker service, foreign currency remittance, foreign currency exchange, foreign exchange purchases and sales against Renminbi (“RMB”), foreign credit investigations, advisory and attestation service, and other financial business activities approved by the CBRC.

1 CORPORATE INFORMATION AND STRUCTURE (continued)

The Bank and its subsidiaries are collectively referred to as the “Group”. As at 31 December 2017, the Bank had a total of 26 subsidiaries, including 24 county banks, a financial leasing company and a rural commercial bank, which are located in Guangdong, Shandong, Jiangsu, Hunan, Henan, Sichuan, Liaoning, Jiangxi and Beijing. The details of the Bank’s subsidiaries as at 31 December 2017 are as follows:

Name	Place of registration	Registered capital	Registered capital	Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		(in thousand)	(in thousand)	2017-12-31	2016-12-31	2017-12-31	2016-12-31	
Laiwu Zhujiang County Bank	Laiwu, Shandong Province	60,000	60,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Xuyi Zhujiang County Bank	Xuyi, Jiangsu Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Qidong Zhujiang County Bank	Qidong, Jiangsu Province	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Changning Zhujiang County Bank	Changning, Hunan Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Laizhou Zhujiang County Bank	Laizhou, Shandong Province	80,000	80,000	51.00%	51.00%	51.00%	51.00%	Banking
Haiyang Zhujiang County Bank	Haiyang, Shandong Province	70,000	70,000	51.00%	51.00%	51.00%	51.00%	Banking
Huixian Zhujiang County Bank	Huixian, Henan Province	60,000	60,000	35.00%(i)	35.00%(i)	51.00%	51.00%	Banking
Pengshan Zhujiang County Bank	Pengshan, Sichuan Province	50,000	50,000	35.00%(i)	35.00%(i)	51.00%	51.00%	Banking
Xinjin Zhujiang County Bank	Xinjin, Sichuan Province	100,000	100,000	35.00%(i)	35.00%(i)	53.00%	53.00%	Banking
Guanghan Zhujiang County Bank	Guanghan, Sichuan Province	100,000	100,000	35.00%(i)	35.00%(i)	51.00%	51.00%	Banking
Dalian Baoshuiqu Zhujiang County Bank	Dalian Bonded Area, Liaoning Province	100,000	100,000	35.00%(i)	35.00%(i)	56.00%	56.00%	Banking
Jizhou Zhujiang County Bank	Jian, Jiangxi Province	87,820	87,820	33.79%(i)	33.79%(i)	57.19%	57.19%	Banking
Heshan Zhujiang County Bank	Heshan, Guangdong Province	150,000	150,000	34.00%(i)	34.00%(i)	71.00%	71.00%	Banking
Beijing Mentougou Zhujiang County Bank	Mentougou District, Beijing	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Xinyang Zhujiang County Bank	Xinyang, Henan Province	414,200	414,200	39.60%(i)	39.60%(i)	54.13%	54.13%	Banking
Yantai Fushan Zhujiang County Bank	Yantai, Shandong Province	100,000	100,000	93.00%	35.00%(i)	93.00%	52.00%	Banking
Anyang Zhujiang County Bank	Anyang, Henan Province	60,000	60,000	35.00%(i)	35.00%(i)	51.00%	51.00%	Banking
Qingdao Chengyang Zhujiang County Bank	Chengyang District, Qingdao, Shandong Province	100,000	100,000	35.00%(i)	35.00%(i)	51.00%	51.00%	Banking

Notes to Financial Statements

31 December 2017

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

1 CORPORATE INFORMATION AND STRUCTURE (continued)

Name	Place of registration	Registered capital	Registered capital	Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		(in thousand)	(in thousand)	2017-12-31	2016-12-31	2017-12-31	2016-12-31	
Suzhou Wuzhong Zhujiang County Bank	Wuzhong District, Suzhou, Jiangsu	150,000	150,000	51.00%	51.00%	51.00%	51.00%	Banking
Sanshui Zhujiang County Bank	Foshan, Guangdong Province	200,000	200,000	33.40%(i)	33.40%(ii)	50.50%	50.50%	Banking
Zhongshan Dongfeng Zhujiang County Bank	Dongfeng, Guangdong Province	150,000	150,000	35.00%(i)	35.00%(ii)	35.00%	35.00%	Banking
Xingning Zhujiang County Bank	Meizhou, Guangdong Province	50,000	50,000	34.00%(i)	34.00%(i)	100.00%	100.00%	Banking
Shenzhen Pingshan Zhujiang County Bank	Shenzhen, Guangdong Province	300,000	300,000	35.00%(i)	35.00%(i)	83.00%	83.00%	Banking
Dongguan Huangjiang Zhujiang County Bank	Dongguan, Guangdong Province	150,000	150,000	35.00%(i)	35.00%(i)	100.00%	100.00%	Banking
Zhuzhou Zhujiang Rural Commercial Bank ("ZZRCB")	Zhuzhou, Hunan Province	600,000	51,129	51.00%	—	61.00%	—	Banking
Zhujiang Financial Leasing Co, Ltd	Guangzhou, Guangdong Province	1,000,000	1,000,000	100.00%	100.00%	100.00%	100.00%	Financial leasing

- (i) The Bank holds less than majority equity interests in these subsidiaries. In accordance with the agreements to act in concert entered into by the Bank and the non-controlling shareholders, the non-controlling shareholders vote consistently with the Bank in deciding the financial and operating policies. Hence, the management of the Bank believes that the Bank has controls over this subsidiaries.
- (ii) The Bank holds less than majority equity interests in these subsidiaries. According to their respective articles of association, the appointment of board of directors are subject to approval by two-third majority votes. Through appointing or approving the appointment of the key management of these subsidiaries, including the chairman, vice president and directors of risk management and finance, the Bank has exposure to variable returns from its involvement in the relevant operations of these subsidiaries and the ability to affect the returns through the power over these subsidiaries. Management of the Bank believes that the Bank has controls over these subsidiaries.

2.1 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations promulgated by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared on an accrual basis and under the historical cost convention except for financial assets/liabilities at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value. If an asset is impaired, a provision for impairment losses of the asset is recognised in accordance with the relevant requirements. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

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

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

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

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership instead of a subsidiary without a loss of control, is accounted for as equity transaction. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of consolidated comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- (a) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognises the carrying amount of any non-controlling interest;

2.1 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

- (c) derecognises the cumulative translation differences recorded in equity;
- (d) recognises the fair value of the consideration received;
- (e) recognises the fair value of any investment retained;
- (f) recognises any resulting surplus or deficit in profit or loss; and
- (g) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 Included in <i>Annual Improvements to IFRSs 2014–2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12</i>

The adoption of the above revised standards has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts¹</i>
IFRS 9	<i>Financial Instruments¹</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation²</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers¹</i>
IFRS 16	<i>Leases²</i>
IFRS 17	<i>Insurance Contracts³</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement²</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures²</i>
Amendments to IAS 40	<i>Transfers of Investment Property¹</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments²</i>
Annual Improvements 2014–2016 Cycle	<i>Amendments to IFRS 1 and IFRS 28¹</i>
Annual Improvements 2015–2017 Cycle	<i>Amendments to a number of IFRSs²</i>

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- 1 Effective for annual periods beginning on or after 1 January 2018.
- 2 Effective for annual periods beginning on or after 1 January 2019.
- 3 Effective for annual periods beginning on or after 1 January 2021.
- 4 No mandatory effective date yet determined but available for adoption.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, except IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments* and IFRS 16 *Leases*, the Group considers that these new and revised IFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's results of operations and financial position.

IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally being adopted.

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. In October 2017, the IASB issued an amendment to IFRS 9 *Financial Instruments*. This allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The Group adopted IFRS 9 from 1 January 2018.

(a) Classification and measurement

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

Business model

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(a) Classification and measurement (continued)

Characteristics of the contractual cash flows

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

(b) Impairment

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

Measurement of ECL

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

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage I: The financial instruments without significant increases in credit risk after initial recognition are included in Stage I to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage II: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage II, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage III: Financial assets with objective evidence of impairment at the end of the reporting period are included in Stage III, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For financial assets with impairment allowance previously measured at the amount equivalent to the ECL over the entire lifetime of the financial instruments, at the end of the reporting period, if the condition of there being a significant increase in credit risk since initial recognition no longer exists, the Group will measure the impairment allowance of the financial instruments at the end of the reporting period based on the ECL in the next 12 months.

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(b) Impairment (continued)

Measurement of ECL (continued)

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(c) Impacts

Considering the impact of these standards, and interpretations on the consolidated financial statements, the Group will record an adjustment to 1 January 2018 shareholders' equity at the adoption date, but will not restate comparative figures. The adoption of IFRS 9 is expected to reduce shareholders' equity by approximately 1% as at 1 January 2018. The estimated impact relates primarily to the implementation of the ECL requirements in the Group.

IFRS 15, issued in May 2014 and revised in April 2016, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue.

The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. According to current result of assessment, IFRS 15 does not have significant effect on the Group's financial statement.

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Foreign currency translation

The consolidated financial statements of the Group are presented in RMB, being the functional and presentation currency of the Bank and its subsidiaries.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined.

(2) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition of financial instruments

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables and available-for-sale financial assets.

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial asset or financial liability is measured initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Measurement of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments — Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Group has access to at the measurement date. The Group considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available at the end of each year.
- Level 2 financial instruments — Those where the inputs that are used for valuation are significant, and are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Group will classify the instruments as Level 3.
- Level 3 financial instruments — Those that include one or more unobservable inputs that are significant to the measurement as whole.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Financial instruments (continued)

Measurement of fair value (continued)

The Group periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Group's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Group applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments.

The Group estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself.

The Group evaluates the level at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities held for trading and financial assets or financial liabilities designated as at fair value through profit or loss.

Financial assets or financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if:

- (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) it is a derivative.

Financial assets held for trading mainly include bond investments.

Financial assets or financial liabilities held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the statement of profit or loss.

Financial assets or financial liabilities designated as at fair value through profit or loss

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below:

- (i) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;
- (ii) It applies to a group of financial assets, financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- (iii) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Financial instruments (continued)

Financial assets or financial liabilities designated as at fair value through profit or loss (continued)

These financial assets and financial liabilities are measured at fair value after initial recognition. Realised and unrealised income or expenses are recognised in the statement of profit or loss.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the statement of profit or loss when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments.

The Group shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

- (i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- (ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- (iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the statement of profit or loss when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the statement of profit or loss as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the statement of profit or loss. Dividend and interest income on available-for-sale financial assets are recorded in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Financial instruments (continued)

Available-for-sale financial assets (continued)

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest rate method, and the profit or loss arising from derecognising or amortising are charged to the statement of profit or loss.

(3) Impairment of financial assets

An assessment on the carrying amounts of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and shall include the value of any relevant collateral. The original effective interest rate is the rate used to determine the values of financial assets at initial recognition. With respect to floating-rate loans, receivables and held-to-maturity investments, the discount rate could be the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the statement of profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of profit or loss, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3) Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

When an item of loans and receivables is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for loan impairment in the statement of profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the statement of profit or loss. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the statement of profit or loss. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If there is objective evidence that the financial asset is impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. More significantly the fair value declines in relation to the cost, the less the volatility moves, and the longer the decline lasts or the more obvious the continuity of the magnitude of the decline is, the more likely the equity investment is impaired. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised as other comprehensive income.

In the case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impaired loss is reversed through the statement of profit or loss.

(4) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in the case of a transferor selling such financial asset), the Group will derecognise the financial asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

(5) Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(6) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(7) Reverse repurchase and repurchase transactions

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(8) Property and equipment

Property and equipment, other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Construction in progress comprises the actual costs of construction. These costs comprise various direct construction costs during the period of construction and other related expenditures. When an asset under construction is ready for its intended use, it is reclassified to fixed assets, intangible assets or other assets, and depreciation or amortisation is provided for according to corresponding policies. Construction in progress is not depreciated until the construction is completed and the asset is ready for its intended use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value rate and annual depreciation rate of each item of property and equipment are as follows:

	Estimated useful life	Estimated residual value rate	Annual depreciation rate
Properties and buildings	10 to 20 years	5%	4.75%–9.50%
Office equipment	4 to 5 years	5%	19.00%–23.75%
Motor vehicles	3 to 5 years	5%	19.00%–31.67%
Leasehold improvements	Over the shorter of the useful economic lives and remaining lease terms		

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised.

(9) Land use rights

Land use rights are recognised at cost, which is the consideration paid. The rights are amortised using the straight-line basis over the period of the leases.

(10) Repossessed assets

Repossessed assets are initially recognised at fair value. The difference between the fair value and the sum of loan principal, interest receivable and impairment provision is taken into the statement of profit or loss. At the end of each year, the repossessed assets are measured at the lower of their carrying value and net realisable value. Provision should be accrued and recognised in the statement of profit or loss if the carrying amount is higher than the net realisable value.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(11) Intangible assets (other than goodwill)

The Group's intangible assets mainly comprise computer software.

Intangible assets are initially measured at cost and recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost can be reliably measured. Otherwise, they are recognised in the statement of profit or loss in the period in which they occur.

Upon an intangible asset becoming ready for its intended use, the costs less estimated residual value and any impairment losses are amortised over its estimated useful life on the straight-line basis.

The useful lives of the Group's intangible assets are from 2 years to 10 years. The amortisation rates of the Group's intangible assets are between 10.00% and 50.00%.

The useful life and the amortisation method for intangible assets with finite useful lives are reviewed at the end of each reporting period. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method is adjusted accordingly as change of accounting estimate.

(12) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The investment properties of the Group mainly include leased buildings.

Investment property is recognised only when it is probable that economic benefits associated with the property will flow to the Group and the cost of the property can be reliably measured.

Investment properties are initially and subsequently measured using the cost method. Depreciation is calculated using the straight-line method.

	Estimated useful life	Estimated residual value rate	Annual depreciation rate
Properties and buildings	10 to 20 years	5%	4.75%–9.50%

(13) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Business combination and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

(14) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

(15) Asset impairment

Impairment losses on assets except for deferred tax assets and financial assets are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(15) Asset impairment (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(16) Cash and cash equivalents

Cash and cash equivalents refer to short-term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with the central bank, amounts due from banks and other financial institutions, reverse repurchase agreements and debt securities with original maturity of less than three months.

(17) Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the each year is significant, the Group will present them at their present value.

Statutory defined contribution plans

In accordance with the relevant laws and regulations, the employees of the Group participate in basic pension insurance and unemployment insurance schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies under the above pension and insurance schemes using applicable contribution bases and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the statement of profit or loss as incurred.

Retirement benefit annuity plan

In addition to the basic pension insurance scheme, employees and early retirees of the Group also participate in a defined contribution plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to the statement of profit or loss when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(17) Employee benefits (continued)

Supplemental retirement benefits

The Group pays supplemental retirement benefits to the retirees, including supplemental pension payments and medical expense coverage. The liability related to the supplemental retirement benefit obligations as at each financial reporting date is calculated by the Group using the projected unit credit method and is recorded as a liability under "Employee benefit obligations" in the statement of financial position. The present value of the liability is determined by discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefits are recognised in "Other comprehensive income" in the period when they occur. The gains or losses arising from amendments to supplemental retirement benefit obligations are recognised in the statement of profit or loss in the period when they occur.

Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the statement of profit or loss as they occur.

(18) Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreements with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

The Group grants the entrusted loans on behalf of the trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The risk of loss is borne by those trustors. The Group charges a commission related to its activities in connection with entrusted loans which is recognised ratably over the period in which the service is provided.

(19) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(19) Recognition of income and expense (continued)

Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers at a specific time or during a certain period. For those services that are provided over a period of time, fee and commission income is accrued over that period. For other services, fee and commission income is recognised when the transactions are completed and the amount of the fee could be estimated reasonably.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Net trading income

Net trading income arising from trading activities include gains and losses from changes in fair value for financial assets at fair value through profit or loss.

(20) Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the statement of profit or loss except that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each year.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of each year between the tax bases of assets and liabilities and their carrying amounts.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Income tax (continued)

Deferred tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (i) Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(21) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(21) Leases (continued)

Operating lease – the Group as a lessee

Lease payments under an operating lease are recognised as an expense in the statement of profit or loss on the straight-line basis over the lease term. Initial direct costs are charged to the statement of profit or loss of the current period, and contingent rent is recognised in the statement of profit or loss when incurred.

Operating lease – the Group as a lessor

Lease income is recognised in the statement of profit or loss on the straight-line basis over the lease term. Material initial direct costs are capitalised as incurred, and amortised over the lease term on the same basis as the lease income. Other immaterial initial direct costs are included in the statement of profit or loss of the current period. Contingent rent is recognised in the statement of profit or loss when incurred.

Finance lease – the Group as a lessor

When the Group is a lessor under a finance lease, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

(22) Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person,
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) Related parties (continued)

- (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); and
- (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 parent of the Group.

(23) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised rateably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the statement of profit or loss.

(24) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(25) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Group's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Group. Dividends for the years ended 2017 and 2016 that approved after the end of the year are disclosed as an event after the year.

(26) Structured entities

A structured entity is an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity. Unconsolidated structured entities refer to equity in other entities which have no significant impact on the Group, including but not limited to equity instrument or debt instruments or any other involvements. The Group's unconsolidated structured entities mainly include off-balance sheet non-guaranteed wealth management products sponsored by the Group (note 41).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(27) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives the grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives the grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. If the fair value cannot be measured reliably, the grants are recorded at the nominal amount of the non-monetary assets. When the grant relates to an expense item, where the grant is intended to compensate the expenses or costs to be incurred in the subsequent period, it is recognised as deferred income and is released to the statement of profit or loss over the periods that the costs, which it is intended to compensate, are expensed; while where the grant is intended to compensate the incurred expenses or costs, the grant is recognised in the statement of profit or loss in the current period. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments. Grants recorded at nominal amount shall be recognised in the statement of profit or loss in the current period.

(28) 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 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available for sale.

Impairment losses of loans and advances and receivables

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances, amounts due from banks and other financial institutions and receivables. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of available-for-sale financial assets and held-to-maturity investments

In determining whether there is objective evidence indicating that available-for-sale financial assets and held-to-maturity investments were impaired, the Group will regularly assess if there has been a “significant or prolonged decline” in the fair value of the assets below its cost or carrying amount, or analyse the financial position and business prospects of the investment objects, including industry conditions, technology change, operating and financing cash flows and so on. Most of these factors rely on management’s judgments and will have an impact on the impairment losses recognised.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB382,216 thousand (2016: nil). Further details are given in note 26.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm’s length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

Early retirement benefits and supplemental retirement benefits

The amount of employee benefit expenses and liabilities for early retirement and supplemental retirement benefits are dependent on the assumptions used in the calculation of such amounts by the Group. These assumptions include discount rates, pension and medical benefit growth rates and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group’s expenses, early retirement benefit obligations and supplemental retirement benefit obligations.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgement in assessing control over structured entities

Management assesses whether the Group controls securitisation products, investment funds, off-balance sheet wealth management products, specific asset management plans, trust plans and asset-backed financing according to the control elements listed in note 2.1 *Basis of Preparation and Significant Accounting Policies*.

Securitisation products

The Group establishes some securitisation products. These products operate according to the established contracts. The Group obtains the variable returns through holding part of the bonds issued by the securitisation products. Meanwhile, the Group carries out the daily management over these securitisation products according to the loan service contracts. In normal conditions, other participants need to make the key decisions just when the asset condition breaches the criteria as specified in the contract. Therefore, the Group assesses whether it controls these securitisation products by considering whether it has the ability to affect the variable returns it received by its power to these securitisation products.

Investments funds, off-balance sheet wealth management products, specific asset management plans, trust plans and asset-backed financing

The Group manages or invests in various investment funds, off-balance sheet wealth management products, specific asset management plans, trust plans and asset-backed financing. When assessing where it has controlled over these structured entities, the Group mainly evaluates its overall economic interests arising from these structured entities, including the earning by direct holding, the expected management fees, and the scope of the decision right. The portion of the Group's overall economic interests is not significant. Meanwhile, according to relevant laws and regulations, for these structured entities, initiation, sales and management of the decision-maker are strictly limited in investment contracts. Therefore, the Group who holds as an agent is not the one who takes the main responsibility, and there is no need to consolidate these structured entities into the consolidated financial statements.

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4 OPERATING SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into four different operating segments as follows:

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporate customers. The products and services include deposits, loans, settlement and clearing and other relating to trading business.

Retail banking

The retail banking segment covers the provision of financial products and services to individual customers. The products and services include deposits, bank cards and credit cards, personal loans and collateral loans, and personal wealth management services.

Financial market business

The financial market business segment covers money market placements, investments and repurchasing, foreign exchange transactions for the Group's own accounts or on behalf of customers.

Others

This segment represents business other than corporate banking, retail banking and financial market business, whose assets, liabilities, income and expenses cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

Inter-segment transfer price is calculated in accordance with the sources and funding period, matching the interest rates announced by the PBOC and the interbank market rates. Expenses are allocated between segments based on benefits.

4 OPERATING SEGMENT INFORMATION (continued)**(a) Operating segments (continued)**

	Corporate banking	Retail banking	Financial market business	Others	Total
Year ended 31 December 2017					
Interest income	9,769,905	4,578,405	14,838,136	—	29,186,446
Interest expense	(4,596,546)	(3,878,266)	(9,017,107)	—	(17,491,919)
Internal net interest income/(expense)	596,210	4,285,794	(4,882,004)	—	—
NET INTEREST INCOME	5,769,569	4,985,933	939,025	—	11,694,527
Fee and commission income	1,378,568	941,431	248,557	—	2,568,556
Fee and commission expense	(175,660)	(85,906)	(15,603)	—	(277,169)
NET FEE AND COMMISSION INCOME	1,202,908	855,525	232,954	—	2,291,387
Net trading income	—	—	1,299,396	—	1,299,396
Net (losses)/gains on financial investments	—	—	(1,640,901)	1,867	(1,639,034)
Other income, gains or losses	(294,142)	(1,498)	(2,729)	130,753	(167,616)
OPERATING INCOME	6,678,335	5,839,960	827,745	132,620	13,478,660
Operating expenses	(1,506,487)	(2,808,198)	(672,881)	(176,628)	(5,164,194)
Impairment losses on assets	(470,106)	(182,509)	(134,301)	(935)	(787,851)
PROFIT BEFORE TAX	4,701,742	2,849,253	20,563	(44,943)	7,526,615
Income tax expense					(1,635,624)
PROFIT FOR THE YEAR					5,890,991
Other segment information:					
Depreciation and amortisation	148,362	310,937	32,879	43,966	536,144
Capital expenditure	144,333	302,494	31,986	21,350	500,163
As at 31 December 2017					
Segment assets	191,558,514	96,154,756	443,926,050	4,074,340	735,713,660
Segment liabilities	(277,003,086)	(234,629,504)	(175,367,019)	(236,332)	(687,235,941)
Other segment information:					
Credit commitments	102,855,738	19,967,279	—	—	122,823,017

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4 OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Year ended 31 December 2016					
Interest income	8,040,071	4,449,824	10,895,623	—	23,385,518
Interest expense	(4,254,470)	(3,551,889)	(4,908,339)	—	(12,714,698)
Internal net interest income/(expense)	924,198	4,178,468	(5,102,666)	—	—
NET INTEREST INCOME	4,709,799	5,076,403	884,618	—	10,670,820
Fee and commission income	1,915,495	927,254	349,887	—	3,192,636
Fee and commission expense	(90,154)	(78,493)	(47,601)	—	(216,248)
NET FEE AND COMMISSION INCOME	1,825,341	848,761	302,286	—	2,976,388
Net trading income	—	—	986,404	—	986,404
Net gains on financial investments	—	—	449,023	1,784	450,807
Other income, gains or losses	82,679	46,589	(605)	26,706	155,369
OPERATING INCOME	6,617,819	5,971,753	2,621,726	28,490	15,239,788
Operating expenses	(1,672,704)	(2,904,911)	(721,260)	(158,310)	(5,457,185)
Impairment losses on assets	(2,069,860)	(1,594,241)	402,712	1,632	(3,259,757)
PROFIT BEFORE TAX	2,875,255	1,472,601	2,303,178	(128,188)	6,522,846
Income tax expense	—	—	—	—	(1,416,500)
PROFIT FOR THE YEAR					5,106,346
Other segment information:					
Depreciation and amortisation	150,254	296,757	48,858	38,999	534,868
Capital expenditure	134,985	217,830	31,488	12,387	396,690
At 31 December 2016					
Segment assets	153,545,406	82,080,607	421,931,767	3,393,335	660,951,115
Segment liabilities	(231,761,407)	(211,930,088)	(179,335,150)	(84,767)	(623,111,412)
Other segment information:					
Credit commitments	99,105,019	17,352,057	—	—	116,457,076

(b) Geographic information

The Bank mainly operates in Guangdong Province, China. The main clients and non-current assets are located in Guangdong Province, China.

5 NET INTEREST INCOME

	Year ended 31 December	
	2017	2016
Interest income on:		
Loans and advances to customers	14,955,910	13,502,116
— Corporate loans and advances	9,842,113	8,039,818
— Personal loans	4,675,941	4,449,213
— Discounted bills	437,856	1,013,085
Reverse repurchase agreements	2,000,641	894,703
Available-for-sale financial assets	5,646,805	3,422,615
Held-to-maturity financial investments	1,127,441	615,346
Receivables	3,545,122	3,151,458
Due from central bank	1,081,846	928,875
Deposits and placements with banks and other financial institutions	828,681	870,405
Subtotal	29,186,446	23,385,518
Interest expense on:		
Due to customers	(8,611,976)	(7,806,359)
Repurchase agreements	(669,876)	(451,394)
Deposits and placements from banks and other financial institutions	(2,446,913)	(1,787,658)
Debt securities issued	(5,378,132)	(2,361,432)
Borrowings from other banks (i)	(363,331)	(284,233)
Due to central bank	(21,691)	(23,622)
Subtotal	(17,491,919)	(12,714,698)
Net interest income	11,694,527	10,670,820
Including: interest income on impaired loans	88,050	137,240
Interest income from:		
Listed debt instruments	3,534,412	3,140,976
Unlisted debt instruments	25,652,034	20,244,542
Total	29,186,446	23,385,518

- (i) The interest expenses for the long-term and short-term borrowings from other banks were incurred by Zhujiang Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank.

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6 NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2017	2016
Fee and commission income:		
Advisory and consultancy fees	823,175	1,312,498
Settlement and electronic channel business fees	126,335	126,078
Agency and custodian service fees	393,987	470,369
Wealth management product related fee income	188,922	320,429
Bank card fees	620,543	546,218
Financial lease business	142,179	191,197
Foreign exchange business	86,015	48,664
Others	187,400	177,183
Subtotal	2,568,556	3,192,636
Fee and commission expense:		
Settlement and electronic channel business fees	(29,572)	(50,151)
Bank card fees	(66,625)	(43,580)
Others	(180,972)	(122,517)
Subtotal	(277,169)	(216,248)
Net fee and commission income	2,291,387	2,976,388

7 NET TRADING INCOME

	Year ended 31 December	
	2017	2016
Debt securities:		
Unrealised losses from debt securities	(31,749)	(397,690)
Realised gains from debt securities	711,547	864,404
	679,798	466,714
Funds:		
Unrealised gains/(losses) from funds	5,011	(887)
Realised gains from funds	614,587	520,577
	619,598	519,690
Total	1,299,396	986,404

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets at fair value through profit or loss.

8 NET (LOSSES)/GAINS ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2017	2016
Dividend from available-for-sale equity investments	1,868	1,784
(Losses)/gains on disposal of available-for-sale financial assets	(1,640,902)	449,023
Total	(1,639,034)	450,807

9 OTHER INCOME, GAINS OR LOSSES

	Year ended 31 December	
	2017	2016
Net gains on disposal of property and equipment	242	578
Net (losses)/gains on sale of repossessed assets	(33,275)	33,445
(Losses)/gains from foreign exchange, net	(308,260)	39,952
Net rental income	13,111	16,311
Government grants and subsidies	141,550	71,671
Donations	(5,525)	(1,272)
Others	24,541	(5,316)
Total	(167,616)	155,369

10 OPERATING EXPENSES

	Year ended 31 December	
	2017	2016
Staff costs:		
Salaries, bonuses and allowances	2,031,898	1,858,413
Social insurance	108,530	114,358
Housing fund	183,604	225,601
Employee benefits	232,880	232,146
Labour union expenditure and education costs	69,599	61,418
Benefits for early retirement and supplemental retirement	77,836	131,006
Defined contribution plans	317,464	314,505
Others	8,053	6,347
Subtotal	3,029,864	2,943,794
General and administrative expenses	1,196,775	1,248,967
Business tax and surcharges	162,774	463,134
Depreciation and amortisation	513,965	512,785
Rental expense	254,889	281,456
Auditors' remuneration	5,927	7,049
Total	5,164,194	5,457,185

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11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Name	Position	Year ended 31 December 2017			
		Fees (1)	Salaries, bonus and benefits (2)	Contributions to pension schemes (3)	Total emoluments before tax (4)=(1)+(2)+(3)
Wang Jikang	Chairman	—	782	225	1,007
Yi Xuefei	Vice Chairman	—	782	225	1,007
Wu Huiqiang (i)	Director	—	701	119	820
Su Zhigang	Director	63	—	—	63
Shao Jianming	Director	75	—	—	75
Zheng Shuping	Director	69	—	—	69
Zhang Yongming	Director	69	—	—	69
Li Fangjin	Director	63	—	—	63
Zhu Kelin	Director	81	—	—	81
Liu Guojie (ii)	Director	63	—	—	63
Yung Hin Man Raymond (ii)	Independent Director	207	—	—	207
Song Guanghui	Independent Director	397	—	—	397
Zheng Jianbiao	Independent Director	208	—	—	208
Liu Heng	Independent Director	231	—	—	231
Liu Shaobo	Independent Director	243	—	—	243
Liu Wensheng	Chairman of the Board of Supervisors	—	705	225	930
Lu Lian	Supervisor	105	—	—	105
Zhang Dalin	Supervisor	99	—	—	99
Huang Yong	Supervisor	109	—	—	109
Xiao Shilian	Supervisor	—	1,266	217	1,483
He Heng	Supervisor	—	1,263	187	1,450
Chen Wu	Former Vice Chairman of the Board of Supervisors	—	1,536	225	1,761
Wu Haifeng	Former Supervisor	—	2,009	225	2,234
Shao Baohua	External Supervisor	111	—	—	111
Chen Dan (iii)	External Supervisor	99	—	—	99
Mao Yunshi (iii)	External Supervisor	200	—	—	200

(i) Wu Huiqiang has ceased to act as the director of the Bank in the extraordinary shareholders' general meeting held on 7 September 2017 which has been approved by the Board members during the meeting.

(ii) Yung Hin Man Raymond and Liu Guojie have obtained qualifications from CBRC Guangdong Office to act as independent directors on 25 December 2017.

(iii) Mao Yunshi and Chen Dan have been elected as the supervisory board members and Chen Letian resigned as the supervisory board member at the extraordinary shareholders' general meeting held on 7 September 2016.

During the year ended 31 December 2017, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration (2016: nil).

During the year ended 31 December 2017, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or were payable to such persons upon joining the Group or as compensation for loss of office (2016: nil).

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Name	Position	Year ended 31 December 2016			
		Fees (1)	Salaries, bonus and benefits (2)	Contributions to pension schemes (3)	Total emoluments before tax (4)=(1)+(2)+(3)
Wang Jikang	Chairman	—	728	233	961
Yi Xuefei	Vice Chairman	—	728	233	961
Wu Huiqiang	Director	—	655	233	888
Su Zhigang	Director	63	—	—	63
Shao Jianming	Director	75	—	—	75
Zheng Shuping	Director	75	—	—	75
Zhang Yongming	Director	63	—	—	63
Li Fangjin	Director	63	—	—	63
Zhu Kelin	Director	75	—	—	75
Liu Guojie (i)	Director	—	—	—	—
Yung Hin Man Raymond (i)	Independent Director	—	—	—	—
Mao Yunshi (ii)	Independent Director	125	—	—	125
Song Guanghui	Independent Director	396	—	—	396
Zheng Jianbiao	Independent Director	184	—	—	184
Liu Heng	Independent Director	213	—	—	213
Liu Shaobo	Independent Director	208	—	—	208
Liu Wensheng	Chairman of the Board of Supervisors	—	655	233	888
Lu Lian	Supervisor	96	—	—	96
Zhang Dalin	Supervisor	93	—	—	93
Huang Yong	Supervisor	90	—	—	90
Xiao Shilian (ii)	Supervisor	—	388	74	462
He Heng (ii)	Supervisor	—	423	56	479
Chen Wu (ii)	Former Vice Chairman of the Board of Supervisors	—	1,051	152	1,203
Wu Haifeng (ii)	Former Supervisor	—	1,094	152	1,246
Chen Letian (ii)	External Supervisor	40	—	—	40
Shao Baohua	External Supervisor	87	—	—	87
Chen Dan (ii)	External Supervisor	27	—	—	27
Mao Yunshi (ii)	External Supervisor	19	—	—	19

- (i) Yung Hin Man Raymond, and Liu Guojie have been elected as the board members of the Bank in the extraordinary shareholders' general meeting held on 7 September 2016 which has been subsequently approved by the CBRC Guangdong office on 25 December 2017, and Mao Yunshi ceased to act as the Director of the Bank on 23 August 2016.
- (ii) Mao Yunshi and Chen Dan have been elected as the supervisory board members and Chen Letian resigned as the supervisory board member at the extraordinary shareholders' general meeting held on 7 September 2016. Xiao Shilian and He Heng have been elected as the supervisory board members; Chen Wu and Wu Haifeng ceased their appointment as the supervisory board members at the Worker's Congress held on 22 August 2016.

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12 FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank. Their emoluments were determined based on the prevailing market rates of the region where the Bank operates. In the years ended 31 December 2017 and 2016, the five highest paid individuals of the Group comprised no directors nor supervisors, whose emoluments are disclosed in notes 11 and 45(c) to the financial statements. The emoluments of the five highest paid individuals for the years are as follows:

	Years ended 31 December	
	2017	2016
Salaries, allowances and discretionary bonuses	9,353	7,897
Contributions to pension schemes	1,107	1,163
Total	10,460	9,060

The number of non-director and non-supervisor highest paid employees whose emoluments fell within the following bands is set out below:

	Year ended 31 December	
	2017	2016
RMB500,001 to RMB1,000,000	—	—
RMB1,000,001 to RMB1,500,000	—	—
RMB1,500,001 to RMB2,000,000	1	5
RMB2,000,001 to RMB2,500,000	4	—
RMB2,500,001 to RMB3,000,000	—	—
Total	5	5

For the year ended 31 December 2017, no emolument was paid by the Group to any of these non-director and non-supervisor as an inducement to join or upon joining the Group or as compensation for loss of office (2016: nil).

13 IMPAIRMENT LOSSES ON ASSETS

	Year ended 31 December	
	2017	2016
Impairment losses on:		
Loans and advances to customers	631,095	3,693,685
Placements with banks and other financial institutions	—	(513,135)
Receivables	(2,037)	73,687
Held-to-maturity investments	10,101	(3,800)
Interest receivable	(4,974)	43,139
Other assets	153,666	(33,819)
Total	787,851	3,259,757

14 INCOME TAX EXPENSE**(a) Income tax**

	Year ended 31 December	
	2017	2016
Current income tax	1,550,877	2,190,610
Deferred income tax	84,747	(774,110)
	1,635,624	1,416,500

(b) Reconciliation between income tax and accounting profit

The PRC income tax has been provided at the applicable tax rate on the estimated assessable profits for the years ended 2016 and 2017 based on existing legislation, interpretations and practices in respect thereof.

The Group was subject to PRC income tax at a rate of 25% for the years ended 31 December 2016 and 2017. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2017	2016
Profit before tax	7,526,615	6,522,846
Tax at the PRC statutory income tax rate	1,881,654	1,630,711
Effect of different tax rates	—	(2,111)
Non-deductible expenses	59,849	131,153
Non-taxable income (i)	(320,973)	(334,058)
Underprovision/(overprovision) in respect of prior years	15,094	(2,707)
Effect of change in tax rate	—	(6,488)
Tax expense at the Group's effective income tax rate	1,635,624	1,416,500

- (i) The non-taxable income mainly represents interest income arising from the PRC government bonds which is exempted from income tax under Chinese tax regulations.

15 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The consolidated profit attributable to equity holders of the parent company for the year ended 31 December 2017 includes a profit of RMB5,371 million (2016: RMB4,844 million), which has been dealt with in the financial statements of the Bank.

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16 DIVIDENDS

	2017	2016
Dividends on ordinary shares declared and paid:		
Final dividend	1,630,684	1,630,684
Dividend per share (in RMB yuan)	0.20	0.20

The resolution on the Bank's distribution of cash dividends of RMB20 cents per share in respect of the year ended 31 December 2017, with the total dividends expected to be RMB1,961,654 thousand, is subject to the approval of the shareholders at the forthcoming annual general meeting.

A dividend of RMB20 cents per share in respect of the year ended 31 December 2016, with a total of RMB1,630,684 thousand was approved in the 2016 annual general meeting on 21 June 2017.

17 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Year ended 31 December	
	2017	2016
Earnings:		
Profit attributable to equity holders of the parent company	5,708,718	5,025,586
Shares:		
Weighted average number of ordinary shares in issue (in thousands)	9,023,915	8,153,419
Basic and diluted earnings per share (in RMB yuan)	0.63	0.62

The Group had no dilutive potential shares outstanding during the years ended 31 December 2017 and 2016.

18 CASH AND BALANCES WITH CENTRAL BANK

	31 December	
	2017	2016
Cash on hand	2,443,043	3,335,225
Mandatory reserves with central bank (i)	69,854,954	57,540,461
Surplus reserves with central bank (ii)	29,874,989	21,575,869
Fiscal deposits with central bank	1,594,454	571,387
Total	103,767,440	83,022,942

- (i) The Group is required to place mandatory reserve deposits with the People's Bank of China (the "PBOC"), and these mandatory reserve deposits with the central bank are not available for use in the Group's daily operations. As at 31 December 2017 and 2016, the mandatory deposit reserve ratios of the Bank and its subsidiaries in respect of customer deposits denominated in RMB and foreign currencies complied with the requirement of the PBOC.
- (ii) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

19 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December	
	2017	2016
Nostro accounts:		
Banks operating in Mainland China	11,109,974	16,672,265
Other financial institutions operating in Mainland China	1,304,771	1,276,358
Banks operating outside Mainland China	2,028,885	432,224
	14,443,630	18,380,847

20 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December	
	2017	2016
Placements with banks and other financial institutions:		
Banks operating in Mainland China	5,206,541	1,655,819
Other financial institutions operating in Mainland China	1,400,000	2,255,000
	6,606,541	3,910,819

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December	
	2017	2016
Debt securities issued by: (i)		
Government	700,325	187,701
Financial institutions		
— Policy banks	5,429,762	1,456,474
— Other banks and non-bank financial institutions	481,045	2,316,380
Corporate	1,076,933	3,201,786
Subtotal	7,688,065	7,162,341
Funds and others (ii)	7,582,116	28,818,037
Total	15,270,181	35,980,378

(i) All debt securities of financial assets at fair value through profit or loss are listed in Mainland China.

(ii) Funds and others are unlisted.

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22 REVERSE REPURCHASE AGREEMENTS

	31 December	
	2017	2016
Reverse repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	50,949,815	40,885,123
Other financial institutions operating in Mainland China	25,443,580	39,077,969
	76,393,395	79,963,092
Reverse repurchase agreements analysed by collateral:		
Securities	64,032,397	68,757,577
Bills	12,360,998	11,205,515
	76,393,395	79,963,092

As part of the reverse repurchase agreements, the Group has received securities and bills as collateral that it is allowed to sell or repledge in the absence of default by their owners; the fair value of such collateral accepted by the Group was RMB20,969,317 thousand as at 31 December 2017 (2016: RMB66,382,311 thousand). Included in the above, certain collateral was sold or re-pledged by the Bank with a fair value of RMB140,057 thousand as at 31 December 2017 (2016: RMB14,542,945 thousand). These transactions were conducted under standard terms in the normal course of business.

23 LOANS AND ADVANCES TO CUSTOMERS

	31 December	
	2017	2016
Corporate loans and advances	192,541,478	152,566,990
Personal loans		
Residential mortgages	46,828,065	34,015,811
Personal business loans	26,356,022	28,946,516
Personal consumption loans	15,043,496	11,936,296
Credit cards	8,024,819	6,429,614
Subtotal	96,252,402	81,328,237
Discounted bills	5,219,393	11,996,069
Total loans and advances to customers	294,013,273	245,891,296
Less: Allowance for impairment losses	(8,311,576)	(7,956,525)
Loans and advances to customers, net	285,701,697	237,934,771

23 LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements of allowance for impairment losses during the years ended 31 December 2017 and 2016 are as follows:

	Individually assessed	Collectively assessed	Total
At 1 January 2016	1,177,820	5,701,475	6,879,295
Impairment allowances charged	2,278,616	1,578,020	3,856,636
Reversal of impairment allowances	(65,355)	(97,596)	(162,951)
Accreted interest on impaired loans (note 5)	(123,591)	(13,649)	(137,240)
Write-offs	(2,768,744)	(527,217)	(3,295,961)
Recoveries of loans and advances previously written off	735,150	81,596	816,746
At 31 December 2016 and 1 January 2017	1,233,896	6,722,629	7,956,525
Impairment allowances charged	690,534	152,293	842,827
Reversal of impairment allowances	(93,157)	(118,575)	(211,732)
Accreted interest on impaired loans (note 5)	(73,997)	(14,053)	(88,050)
Write-offs	(814,270)	(475,511)	(1,289,781)
Recoveries of loans and advances previously written off	799,330	244,443	1,043,773
Acquisition of a subsidiary	18,948	39,066	58,014
At 31 December 2017	1,761,284	6,550,292	8,311,576

	31 December	
	2017	2016
Loans and advances:		
Unimpaired loans and advances (i)	289,562,636	241,435,762
Impaired loans and advances to customers (ii)		
Individually assessed	2,812,972	2,608,223
Collectively assessed	1,637,665	1,847,311
	294,013,273	245,891,296
Less: Allowance for impairment losses:		
Unimpaired loans and advances (i)	(5,265,784)	(5,376,680)
Impaired loans and advances to customers (ii)		
Individually assessed	(1,761,284)	(1,233,896)
Collectively assessed	(1,284,508)	(1,345,949)
	(8,311,576)	(7,956,525)
Net loans and advances:		
Unimpaired loans and advances (i)	284,296,852	236,059,082
Impaired loans and advances to customers (ii)		
Individually assessed	1,051,688	1,374,327
Collectively assessed	353,157	501,362
	285,701,697	237,934,771
Percentage of impaired loans and advances	1.51%	1.81%

- (i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (ii) Impaired loans and advances identified are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:
- individually (including mainly corporate loans and advances which are impaired); or
 - collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, mainly personal loans which are impaired).

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24 FINANCIAL INVESTMENTS

	31 December	
	2017	2016
Receivables (a)	90,919,325	76,012,399
Held-to-maturity investments (b)	59,902,988	25,782,157
Available-for-sale financial assets (c)	68,876,564	88,278,361
	219,698,877	190,072,917

(a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

	31 December	
	2017	2016
Trust fund plans and asset management plans (i)	91,345,523	76,440,634
Allowance for impairment losses	(426,198)	(428,235)
Including: Individually assessed	(167,174)	(238,104)
Collectively assessed	(259,024)	(190,131)
Total	90,919,325	76,012,399

(i) The trust fund plans and asset management plans were purchased from trust companies and asset management companies, with no active market quotes. As at 31 December 2017, the definite period lengths were 1 to 60 months (2016: 1 to 60 months).

Movements of allowance for investments classified as receivables are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
At 1 January 2016	169,041	185,507	354,548
Charge for the year	152,793	94,560	247,353
Reversal for the year	(83,730)	(89,936)	(173,666)
At 31 December 2016	238,104	190,131	428,235
Charge for the year	73,095	201,793	274,888
Reversal for the year	(144,025)	(132,900)	(276,925)
At 31 December 2017	167,174	259,024	426,198

24 FINANCIAL INVESTMENTS (continued)**(b) Held-to-maturity investments**

Held-to-maturity investments are stated at amortised cost and comprise the following:

	31 December	
	2017	2016
Debt securities issued by: (i)		
Government	22,497,872	8,050,822
Financial institutions		
— Policy banks	32,908,394	11,285,893
— Other banks and non-bank financial institutions	2,206,025	6,445,442
Corporate	2,300,798	—
Subtotal	59,913,089	25,782,157
Allowance for impairment losses — collectively assessed	(10,101)	—
Total	59,902,988	25,782,157
Market value of listed debt securities	59,339,547	26,037,010

- (i) Except for the debt security amounting to RMB1,207,890 thousand that are listed in Hong Kong, the remaining held-to-maturity investments debt securities are listed in Mainland China.

Movements of allowance on investments classified as held-to-maturity investments are as follows:

	Collectively assessed allowance
At 1 January 2016	3,800
Reversal for the year	(3,800)
At 31 December 2016	—
Charge for the year	10,101
At 31 December 2017	10,101

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24 FINANCIAL INVESTMENTS (continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	31 December	
	2017	2016
Debt securities, at fair value, issued by (i):		
Government	4,784,494	12,801,575
Financial institutions		
— Policy banks	23,296,485	35,984,691
— Other banks and non-bank financial institutions	5,405,690	3,691,477
Corporate	3,618,700	5,287,416
Subtotal	37,105,369	57,765,159
Funds and other investments, at fair value (ii)	31,720,041	30,462,148
Equity and other investments, at cost (iii)	51,154	51,054
Total	68,876,564	88,278,361

- (i) All available-for-sale debt securities are listed in Mainland China.
- (ii) All funds and other investments are unlisted.
- (iii) All available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

25 PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost:						
At 1 January 2016	3,873,579	200,532	490,118	1,134,285	71,411	5,769,925
Additions	8,121	219,224	34,209	92,398	2,495	356,447
CIP transfers	21,118	(147,759)	39,629	87,012	—	—
Other transfer-ins	52,459	—	—	27,769	—	80,228
Disposals	(8,469)	—	—	(125,268)	(1,437)	(135,174)
Other transfer-outs	(1,446)	(16,245)	(598)	—	—	(18,289)
At 31 December 2016 and 1 January 2017	3,945,362	255,752	563,358	1,216,196	72,469	6,053,137
Additions	88,464	236,801	30,704	71,417	3,014	430,400
CIP transfers	105,219	(165,907)	27,819	32,869	—	—
Acquisition of a subsidiary (note 38)	95,107	3,875	—	10,068	668	109,718
Disposals	(110)	—	(3,264)	(61,857)	(3,440)	(68,671)
Other transfer-outs	(4,579)	(99,356)	(68,948)	—	—	(172,883)
At 31 December 2017	4,229,463	231,165	549,669	1,268,693	72,711	6,351,701
Accumulated depreciation:						
At 1 January 2016	2,597,209	—	260,136	754,238	60,809	3,672,392
Depreciation charge for the year	198,481	—	84,763	164,758	5,360	453,362
Disposals	(8,077)	—	—	(87,119)	(1,336)	(96,532)
Other transfer-outs	(1,434)	—	—	—	—	(1,434)
At 31 December 2016 and 1 January 2017	2,786,179	—	344,899	831,877	64,833	4,027,788
Depreciation charge for the year	190,363	—	71,196	151,752	2,527	415,838
Disposals	(110)	—	(3,264)	(58,463)	(3,426)	(65,263)
Other transfer-outs	(4,530)	—	(34,634)	—	—	(39,164)
At 31 December 2017	2,971,902	—	378,197	925,166	63,934	4,339,199
Net carrying amount:						
At 31 December 2016	1,159,183	255,752	218,459	384,319	7,636	2,025,349
At 31 December 2017	1,257,561	231,165	171,472	343,527	8,777	2,012,502

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25 PROPERTY AND EQUIPMENT (continued)

The carrying value of the Group's properties and buildings is analysed based on the remaining terms of the land leases as follows:

	31 December	
	2017	2016
Held in Mainland China		
Over 50 years	170,343	66,239
10 to 50 years	1,038,213	1,034,015
	1,208,556	1,100,254

As at 31 December 2017, the process of obtaining the title for the Group's properties and buildings with an aggregate net carrying amount of RMB49,005 thousand (2016: RMB58,929 thousand) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

As at 31 December 2017 and 2016, the carrying value of other transfer-out from construction in progress was to intangible assets, and the carrying value of other transfer-out from properties and buildings was to investment properties.

26 GOODWILL

At 1 January 2016 and 31 December 2016	—
Acquisition of a subsidiary (note 38)	382,216
At 31 December 2017	382,216

The goodwill arose from the acquisition of ZZRCB in December 2017 and there is no impairment as at 31 December 2017, please refer to note 38 for details.

27 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred taxes relate to the same fiscal authority. As at 31 December 2017, the qualifying amount offset was RMB211 thousand (2016: RMB4,983 thousand).

Movements of deferred tax

	2017				
	At 1 January 2017	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	Acquisition of a subsidiary	At 31 December 2017
Deferred tax assets:					
Allowance for impairment losses	2,644,509	(204,506)	—	—	2,440,003
Change in fair value of available-for-sale financial assets	237,946	—	436,630	—	674,576
Change in financial assets at fair value through profit or loss	68,798	12,809	—	—	81,607
Salaries, bonuses, allowances and subsidiaries payable	255,087	22,864	—	—	277,951
Early retirement benefits	30,245	(3,641)	—	—	26,604
Provisions	2,355	(1,182)	—	—	1,173
Fair value adjustment arising from acquisition of a subsidiary (note 38)	—	—	—	9,751	9,751
Others	39,154	84,137	—	—	123,291
Total	3,278,094	(89,519)	436,630	9,751	3,634,956
Deferred tax liabilities:					
Government grants and subsidies	3,319	(3,319)	—	—	—
Unrealised gains on repossessed assets	1,664	(1,453)	—	—	211
Total	4,983	(4,772)	—	—	211

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27 DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements of deferred tax (continued)

	2016			At 31 December 2016
	At 1 January 2016	Total gains/(losses) recorded in profit or loss	Total gains/(losses) recorded in other comprehensive income	
Deferred tax assets:				
Allowance for impairment losses	2,024,656	619,853	—	2,644,509
Change in fair value of available-for-sale financial assets	—	—	237,946	237,946
Change in financial assets at fair value through profit or loss	—	68,798	—	68,798
Salaries, bonuses, allowances and subsidies payable	237,930	17,157	—	255,087
Early retirement benefits	20,522	9,723	—	30,245
Provisions	7,013	(4,658)	—	2,355
Others	10,769	28,385	—	39,154
Total	2,300,890	739,258	237,946	3,278,094
Deferred tax liabilities:				
Change in fair value of available-for-sale financial assets	259,701	—	(259,701)	—
Change in financial assets at fair value through profit or loss	30,624	(30,624)	—	—
Government grants and subsidies	7,397	(4,078)	—	3,319
Unrealised gains on repossessed assets	1,814	(150)	—	1,664
Total	299,536	(34,852)	(259,701)	4,983

The Group did not have significant unrecognised deferred tax assets and liabilities at the end of year 2017 and 2016. Deferred tax assets have been recognised in respect of the above items as it is considered probable that taxable profits will be available against which the above items can be utilised.

28 OTHER ASSETS

	31 December	
	2017	2016
Interest receivable (a)	5,723,067	4,661,497
Land use rights (b)	181,371	22,572
Receivables and prepayments	325,080	354,946
Settlement and clearing accounts	534,371	174,941
Repossessed assets (c)	380,553	506,794
Intangible assets (d)	208,071	115,898
Investment properties	178,364	188,938
Receivable from agency services	—	311,985
Prepayment for potential investment	70,000	—
Others	201,559	49,318
	7,802,436	6,386,889

(a) Interest receivable

	31 December	
	2017	2016
Bonds and other investments	4,575,296	3,664,534
Loans and advances to customers	827,914	685,987
Others	364,484	360,577
Subtotal	5,767,694	4,711,098
Less: Allowance for impairment losses	(44,627)	(49,601)
	5,723,067	4,661,497

As at 31 December 2017, the Group's interest receivable with aging over one year was RMB70,418 thousand (2016: RMB103,392 thousand) which mainly arose from receivable investments.

(b) Land use rights

	31 December	
	2017	2016
Located in Mainland China		
Over 50 years	3,974	4,056
10 to 50 years	177,397	18,516
	181,371	22,572

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28 OTHER ASSETS (continued)

(c) Repossessed assets

	31 December	
	2017	2016
Land use rights and buildings	402,659	589,066
Others	155,901	830
Subtotal	558,560	589,896
Less: Allowance for impairment losses	(178,007)	(83,102)
	380,553	506,794

Movements of allowance for repossessed assets are as follows:

	Land use right and building allowances	Others allowances	Total
At 1 January 2016	111,371	260	111,631
Transfer out	(28,529)	—	(28,529)
At 31 December 2016	82,842	260	83,102
Charge for the year	—	103,619	103,619
Transfer out	(8,714)	—	(8,714)
At 31 December 2017	74,128	103,879	178,007

(d) Intangible assets

Intangible assets consist primarily of computer software.

29 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December	
	2017	2016
Deposits:		
Banks operating in Mainland China	29,981,660	3,690,686
Other financial institutions operating in Mainland China	13,488,505	29,890,246
	43,470,165	33,580,932

30 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December	
	2017	2016
Placements:		
Banks operating in Mainland China	1,565,556	1,798,321
Other financial institutions operating in Mainland China	200,000	—
Banks operating outside Mainland China	1,806,877	—
	3,572,433	1,798,321

31 REPURCHASE AGREEMENTS

	31 December	
	2017	2016
Repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	23,829,470	48,597,796
Repurchase agreements analysed by collateral:		
Securities	23,829,470	48,597,796

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32 DUE TO CUSTOMERS

	31 December	
	2017	2016
Demand deposits:		
Corporate customers	119,803,153	96,876,070
Personal customers	92,918,339	81,438,653
	212,721,492	178,314,723
Time deposits:		
Corporate customers	100,321,436	82,712,546
Personal customers	119,845,949	110,200,321
	220,167,385	192,912,867
Pledged deposits	11,443,908	11,538,231
Other deposits (i)	44,339,071	40,976,217
	488,671,856	423,742,038

- (i) As at 31 December 2017, the deposits arising from wealth management products with the principal amounts guaranteed by the Group amounted to RMB33,047,430 thousand (2016: RMB35,721,140 thousand).

33 DEBT SECURITIES ISSUED

	31 December	
	2017	2016
2012 subordinated bonds first tranche (a)	—	3,497,914
2014 tier two capital bonds (b)	4,097,633	4,097,125
	4,097,633	7,595,039
Interbank negotiable certificates of deposit ("NCD") (c)	97,286,144	84,700,337
Total	101,383,777	92,295,376

(a) Subordinated bonds

Pursuant to the approval of the PBOC and the CBRC, the Bank issued subordinated bonds with a total amount of RMB3.5 billion in the domestic inter-bank bond market on 28 June 2012. The bonds had a maturity of 10 years, with a fixed coupon rate of 5.99% and annual interest payment on 29 June. The Bank exercised the option to early redeem the bonds on 29 June 2017.

(b) Tier two capital bonds

Pursuant to the approval of the PBOC and the CBRC, the Bank issued tier two capital bonds in an amount of RMB4.1 billion in the domestic interbank bond market on 11 September 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 6.26% and annual interest payment on 15 September. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year.

33 DEBT SECURITIES ISSUED (continued)**(c) Interbank negotiable certificates of deposit**

As at 31 December 2017 and 2016, the outstanding balance was RMB97,286,144 thousand and RMB84,700,337 thousand, with the interest rate ranging from 4.20% to 5.00% and from 2.83% to 5.00%, and the amount would mature in 2018 and 2017 respectively.

34 OTHER LIABILITIES

	31 December	
	2017	2016
Interest payable (a)	7,944,259	7,826,714
Payables for commission funds	90,565	90,500
Settlement and clearing accounts	562,321	403,986
Payable in relation to agency services	29,500	—
Salaries, bonuses, allowances and subsidies payable (b)	1,875,948	1,743,439
Sundry tax payables	447,548	145,703
Collection of repossessed assets	15,000	15,000
Non-performing assets collection (c)	17	32,278
Guarantee deposits from lessees (d)	894,705	836,793
Deposits and guarantees received	38,569	69,891
Deposit insurance premium payable	36,177	30,555
Borrowings from other banks (e)	9,092,320	9,675,000
Payable for credit assets securitization	1,588,916	—
Payable for beneficial rights of credit assets	653,925	—
Deferred revenue	330,065	244,959
Provisions	4,690	9,417
Others	1,009,429	217,665
	24,613,954	21,341,900

(a) Interest payable

	31 December	
	2017	2016
Deposits and placements from banks and other financial institutions	241,075	157,722
Due to customers	7,518,586	7,379,577
Borrowings from other banks (i)	84,343	64,273
Repurchase agreements	24,226	40,722
Bonds payable	74,859	184,056
Others	1,170	364
	7,944,259	7,826,714

- (i) The interest payable arose from the borrowings from other banks to Zhujiang Financial Leasing Co., Ltd., which is a wholly-owned subsidiary of the Bank.

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34 OTHER LIABILITIES (continued)

(b) Salaries, bonuses, allowances and subsidies payable

	31 December	
	2017	2016
Salaries, bonuses and allowances	1,207,087	1,049,143
Social insurance	5,387	5,429
Housing fund	641	488
Employee benefits	396	728
Labour union expenditure and education costs	100,121	88,012
Defined contribution plans	689	18,966
Defined benefit plans		
— Supplemental retirement benefits (i)	455,173	459,640
Early retirement benefits	106,419	120,983
Others	35	50
	1,875,948	1,743,439

(i) Supplemental retirement benefits

The movement of supplementary retirement benefits of the Group are as follows:

	31 December	
	2017	2016
At 1 January	459,640	445,075
Benefits paid during the year	(23,550)	(23,471)
Defined benefit cost recognised in profit or loss	53,433	60,254
Defined benefit cost recognised in other comprehensive income	(34,350)	(22,218)
At 31 December	455,173	459,640

The principal actuarial assumptions adopted at the end of 2017 and 2016 are as follows:

	31 December	
	2017	2016
Discount rate		
— Normal retirees	4.10%	3.01%
— Early retirees	4.35%	3.50%
Expected growth rate of benefits	0–5%	0–5%
Age of retirement		
— Male	60	60
— Female	50/55	50/55

Assumptions regarding future mortality are based on the China Life Insurance Mortality table, which is published statistics in Mainland China.

34 OTHER LIABILITIES (continued)**(b) Salaries, bonuses, allowances and subsidies payable (continued)***(i) Supplemental retirement benefits (continued)*

The sensitivity of the present value of supplemental retirement benefit obligations to changes in the weighted principal assumption is:

	Discount rate	
	31 December	
	2017	2016
Change in basis points		
+50 basis points	(28,506)	(26,204)
-50 basis points	31,969	28,826

	Growth rate	
	31 December	
	2017	2016
Change in basis points		
+50 basis points	31,088	20,765
-50 basis points	(27,991)	(19,235)

(c) Collection of non-performing assets

The promoters of the additional shares issued during the Bank's restructuring donated the Bank's net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Bank. Up to 31 December 2017, the Bank has received accumulative proceeds of RMB2,121,304 thousand (31 December 2016: RMB1,980,393 thousand) from the non-performing assets. The donation procedures of these proceeds amounting to RMB2,121,287 thousand have been completed (31 December 2016: RMB1,948,115 thousand). After deducting income tax of RMB306,013 thousand (31 December 2016: RMB306,013 thousand), the net accumulative proceeds amounting to RMB1,815,274 thousand as at 31 December 2017 (31 December 2016: RMB1,642,102 thousand) have been recorded as capital reserve, and the remaining proceeds amounting to RMB17 thousand were recorded as other liabilities and pending for completion of the donation procedures as at 31 December 2017 (31 December 2016: RMB32,278 thousand).

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34 OTHER LIABILITIES (continued)

(d) Guarantee deposits from lessees

The wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., received deposits from lessees when entering into the finance lease contracts. These deposits are interest-free and will be repaid upon maturity of the lease contracts.

(e) Borrowings from other banks

As at 31 December 2017, the wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., borrowed long-term and short-term loans for its leasing operation business, with maturity ranging from 1 to 36 months (31 December 2016: from 3 to 36 months) and fixed interest rates ranging from 4.80% to 6.00% (31 December 2016: from 3.70% to 4.90%).

35 SHARE CAPITAL

	31 December 2017		31 December 2016	
	Number of shares	Nominal value	Number of shares	Nominal value
Opening balance	8,153,419	8,153,419	8,153,419	8,153,419
Issuance of shares	1,654,850	1,654,850	—	—
As at 31 December 2017/ 31 December 2016	9,808,269	9,808,269	8,153,419	8,153,419

In June 2017, 1,439,000 thousand ordinary shares with par value of RMB1 were issued at HK\$5.10 per share in an initial public offering on The Stock Exchange of Hong Kong Limited. In July 2017, the Bank fully exercised the Over-allotment Option and issued 215,850 thousand Shares with par value of RMB1 at HK\$5.10 per share on The Stock Exchange of Hong Kong Limited. The premium arising from the issuance of new shares was recorded in capital reserve accounts.

36 RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value and shareholders' donation.

(b) Surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles of association to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

For the year ended 31 December 2017, an appropriation of 10% of the profit of the Bank determined under generally accepted accounting principles of the PRC ("PRC GAAP") was made to the statutory surplus reserve, in the amount of RMB537,086 thousand (2016: RMB484,428 thousand).

36 RESERVES (continued)

(c) General reserve

Pursuant to the relevant regulations issued by the Ministry of Finance (the “MOF”), the Bank and its subsidiaries are required to maintain a general reserve within equity, through the appropriation of net profit, which, starting from 1 July 2012, should not be less than 1.5% of the year-end balance of their respective risk assets as defined by the regulations of year 2018. The Bank appropriated RMB609,268 thousand to the general reserve for the year ended 31 December 2017 (2016: RMB1,190,000 thousand), and the reserve has reached 1.5% of the year-end balance of its risk assets as required on 31 December 2017 and 31 December 2016.

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets.

(e) Remeasurement gains/losses on defined benefit plans

Remeasurement gains/losses on defined benefit plans are the actuarial gains or losses of supplemental retirement benefits.

(f) Reserves of the Bank

In accordance with the relevant regulations, after the Bank’s initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profit determined in accordance with the PRC banking regulations and (ii) the retained profit determined in accordance with IFRSs. The amounts that the Bank’s subsidiaries can legally distribute are determined by reference to their profits as reflected in their financial statements prepared in accordance with PRC GAAP. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

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36 RESERVES (continued)

(f) Reserves of the Bank (continued)

The movements in reserves and retained profits of the Bank during the years ended 2017 and 2016 are set out below:

	Reserves					Total	Retained profits
	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans		
Balance at 1 January 2016	4,696,696	2,661,377	6,517,563	779,111	11,599	14,666,346	10,791,745
Profit for the year	—	—	—	—	—	—	4,844,279
Shareholders' donation	145,406	—	—	—	—	145,406	—
Change in fair value of available-for-sale investments	—	—	—	(1,492,939)	—	(1,492,939)	—
Remeasurement gains on defined benefit plans	—	—	—	—	22,218	22,218	—
Appropriation to surplus reserve	—	484,428	—	—	—	484,428	(484,428)
Appropriation to general reserve	—	—	1,190,000	—	—	1,190,000	(1,190,000)
Dividend declared and paid	—	—	—	—	—	—	(1,630,684)
Balance at 31 December 2016 and 1 January 2017	4,842,102	3,145,805	7,707,563	(713,828)	33,817	15,015,459	12,330,912
Profit for the year	—	—	—	—	—	—	5,370,864
Issue of shares	5,600,957	—	—	—	—	5,600,957	—
Shareholders' donation	173,172	—	—	—	—	173,172	—
Change in fair value of available-for-sale investments	—	—	—	(1,309,889)	—	(1,309,889)	—
Remeasurement gains on defined benefit plans	—	—	—	—	34,350	34,350	—
Appropriation to surplus reserve	—	537,086	—	—	—	537,086	(537,086)
Appropriation to general reserve	—	—	609,268	—	—	609,268	(609,268)
Dividends declared and paid (note 16)	—	—	—	—	—	—	(1,630,684)
Balance at 31 December 2017	10,616,231	3,682,891	8,316,831	(2,023,717)	68,167	20,660,403	14,924,738

37 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	31 December	
	2017	2016
Remeasurement gains on defined benefit plans	34,350	22,218
Available-for-sale financial assets		
Changes in fair value	(2,144,630)	(1,538,885)
Less: Transfer to profit or loss upon disposal	(398,111)	451,701
Income tax effect (note 27)	(436,630)	(497,647)
Total	(1,275,539)	(1,470,721)

38 BUSINESS COMBINATION

Under the "Approval Regarding the Opening of Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd. (Xiang Yinjianfu No. [2017]312) issued by the CBRC Hunan office, ZZRCB was incorporated in December 2017. The Bank holds 51% of the equity interests of ZZRCB and holds 61% voting rights of ZZRCB by the act in concert agreement with the non-controlling shareholder. Hence, the management of the Bank believes that the Bank has control over this subsidiary.

The fair values of the identifiable assets and liabilities of ZZRCB as at the date of acquisition were as follows:

	Fair value recognised on acquisition
Cash and balances with the central bank	583,895
Deposits with banks and other financial institutions	67,334
Reverse repurchase agreements	732,332
Loans and advances to customers	1,214,836
Available-for-sale financial assets	584,513
Held-to-maturity financial investments	2,864,669
Property and equipment	109,718
Deferred income tax assets	9,751
Other assets	256,805
Deposits from banks and other financial institutions	(1,698)
Due to customers	(5,618,882)
Income tax payable	(5,667)
Other liabilities	(125,049)
Fair value of net assets acquired	672,557
Non-controlling interests	329,553
Goodwill on acquisition (note 26)	382,216
Satisfied by cash	725,220

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38 BUSINESS COMBINATION (continued)

The fair value of loans and advances to customers at the date of acquisition amounted to approximately RMB1,214,836 thousand. The gross contractual amounts of those loans and advances to customers acquired amounted to approximately RMB1,272,850 thousand at the date of acquisition.

The non-controlling interests (49%) in ZZRCB recognized at the acquisition date was measured by reference to the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

Cash consideration	(725,220)
Cash and cash equivalents acquired	855,795
Net inflow of cash and cash equivalents included in cash flows from investing activities	130,575

Since the acquisition was completed in December 2017, ZZRCB's contribution to the consolidated profit is not significant for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the profit of the Group for the year would have been RMB5,929,189 thousand.

39 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

On the consolidated statement of cash flows, cash and cash equivalents have an original maturity of less than three months and include the following:

	31 December	
	2017	2016
Cash on hand (note 18)	2,443,043	3,335,225
Surplus reserves with central bank (note 18)	29,874,989	21,575,869
Deposits with banks and other financial institutions	9,597,207	9,082,733
Placements with banks and other financial institutions	1,731,294	668,862
Reverse repurchase agreements	65,600,697	70,712,346
Debt securities	—	821,046
	109,247,230	106,196,081

40 TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets in the consolidated statement of financial position.

40 TRANSFERS OF FINANCIAL ASSETS (continued)

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include securities held by counterparties as collateral under repurchase agreements. The counterparties are allowed to sell or repledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. The following table analyses the carrying amounts of the above-mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	31 December	
	2017	2016
Carrying amount of transferred assets	2,893,829	14,204,853
Carrying amount of associated liabilities	2,879,600	14,358,296

Bond lending arrangements

The Group entered into bond lending agreements with security borrowers to lend out its bond securities classified as available-for-sale financial assets of carrying amount totalling nil (2016: RMB2,445,832 thousand) and held-to-maturity investments of carrying amount totalling nil as at 31 December 2017 (2016: RMB524,918 thousand), which are secured by borrowers' bonds held as collateral. As stipulated in the bond lending agreements, the legal ownership of these bond securities was transferred to the borrowers. Although the borrowers were allowed to sell these bond securities during the covered period, they had obligations to return these bond securities to the Group at specified future dates and the maximum covered period was 179 days as at 31 December 2016. The Group has determined that it retained substantially all the risks and rewards of these bond securities and therefore has not derecognised them in the consolidated financial statements.

Securitisation transactions

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to a special purpose trust which in turn issues asset-backed securities to investors. During the year ended 31 December 2017, the total carrying amount of the credit assets before being transferred to the special purpose trust was RMB6,017,962 thousand (2016: nil). As the Group has transferred substantially all the risks and rewards, the Group derecognised the transferred credit assets in their entirety in the securitisation transactions. As at 31 December 2017, the corresponding total carrying amount of asset-backed securities held by the Group was RMB326,275 thousand (2016: nil), which represented the Group's maximum exposure to loss.

Transfer of beneficial rights of credit assets

The Group enters into credit asset transfer transactions by which it transfers credit assets to the structured entity which sells trust beneficial interests to investors. During the year ended 31 December 2017, the total carrying amount of the credit assets before the transfer transaction was RMB3,444,851 thousand (2016: nil). As the Group transfers substantially all the risks and rewards, the Group derecognised the transferred credit assets in their entirety.

41 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments, asset management and securitisation transactions. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out below:

Structured entities sponsored by the Group

In conducting wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 31 December 2017, the balance of the unconsolidated non-guaranteed wealth management products sponsored by the Group amounted to RMB123,449,770 thousand (2016: RMB134,820,177 thousand). During the year ended 31 December 2017, the Group recorded commission income as the manager of these wealth management products amounting to RMB188,922 thousand (2016: RMB320,429 thousand). The gains from the unconsolidated non-guaranteed wealth management products of the Group are the same as the Bank's maximum exposure to loss from its gains in such business. The Group considered its variable returns from its involvement with the structured entities are not significant and hence it does not consolidate these structured entities.

For the purpose of asset-liability management, the Group's unconsolidated structured entities may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. The Group may enter into repurchase and placement transactions with these unconsolidated structured entities in accordance with market principles. As at 31 December 2017, the balance of the above repurchase and placement transactions was nil (2016: nil). The maximum exposure to loss of those placements approximated the carrying amount.

In addition, unconsolidated structured entities sponsored by the Bank also include asset-backed securities. The total carrying amount of credit assets before being transferred by the Group into the unconsolidated structured entity was RMB9,462,813 thousand up to 31 December 2017 (2016: nil). The portion of asset-backed securities issued by the above structured entities and held by the Group is disclosed in note 40.

41 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (continued)**Structured entities sponsored by the Group (continued)**

As at 31 December 2017, the interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out below:

	31 December 2017					
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Receivables	Held-to-maturity investments	Total	Maximum exposure to loss
Trust fund plans, asset management plans and funds	7,582,116	26,610,041	90,919,325	—	125,111,482	125,111,482
Wealth management products	—	5,110,000	—	—	5,110,000	5,110,000
Asset-backed securities	287,407	302,272	—	276,000	865,679	865,679
Total	7,869,523	32,022,313	90,919,325	276,000	131,087,161	131,087,161

	31 December 2016					
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Receivables	Total	Maximum exposure to loss	
Trust fund plans, asset management plans and funds	28,818,037	27,261,135	76,012,399	132,091,571	132,091,571	
Wealth management products	—	3,201,013	—	3,201,013	3,201,013	
Asset-backed securities	735,910	549,951	—	1,285,861	1,285,861	
Total	29,553,947	31,012,099	76,012,399	136,578,445	136,578,445	

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42 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At the end of the year, the Group had capital commitments as follows:

	31 December	
	2017	2016
Contracted, but not provided for	157,963	79,341

(b) Operating lease commitments

Operating lease commitments – Lessee

During the year, the Group leased certain of their office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	31 December	
	2017	2016
Within one year	275,655	286,361
After one year but not more than five years	694,576	863,149
After five years	210,452	257,076
	1,180,683	1,406,586

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limits are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the year had the counterparties failed to perform as contracted.

	31 December	
	2017	2016
Bank acceptances	6,517,566	14,254,858
Guarantees issued	14,924,292	11,159,152
Letters of credit issued	1,636,634	4,880,321
Loan commitments (i)	87,366,353	76,060,474
Undrawn credit card limits	12,378,172	10,102,271
	122,823,017	116,457,076

(i) Loan commitments of the Group are the unconditionally revocable loan commitments.

42 COMMITMENTS AND CONTINGENT LIABILITIES (continued)**(d) Credit risk-weighted amount of financial guarantees and credit related commitments**

	31 December	
	2017	2016
Financial guarantees and credit related commitments	16,577,622	20,309,319

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the credit worthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

(e) Legal proceedings

As at 31 December 2017, the total claimed amounts of the litigation cases of which the Bank or its subsidiaries are the defendant amounted to RMB6,973 thousand (2016: RMB12,350 thousand). In the opinion of management, the Bank has made adequate provisions for any probable losses based on the current facts and circumstances. The litigation cases are not expected to have a significant impact on the Bank's business, financial condition and performance.

(f) Forward purchase commitments

The Bank has committed to purchasing trust products and asset management plans in the future with a total contract amount of nil as at 31 December 2017 (2016: RMB200,000 thousand).

(g) Cooperation fund commitment

As a result of the subscription of shares in the cooperation risk fund established by Asia Financial Cooperation Association, the Bank had rescue bailout commitments to the Association members amounting to RMB90,000 thousand as at 31 December 2017 (2016: RMB90,000 thousand).

43 FIDUCIARY ACTIVITIES

	31 December	
	2017	2016
Designated funds	(21,814,375)	(30,993,542)
Designated loans	21,814,375	30,993,542

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group does not bear any risk. The designated funds represent the funding that the trustors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the trustors.

The Group provides custody services to third parties. Revenue from such activities is included in "Net fee and commission income" set out in note 6 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

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44 ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly arising from repurchase agreements and negotiated deposits. As at 31 December 2017, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB25,633,386 thousand (2016: RMB39,388,868 thousand).

45 RELATED PARTY DISCLOSURES

(a) Significant related party disclosures

Details of the subsidiaries of the Bank are set out in note 1 Corporate Information and Structure.

(b) Related party transactions

(i) Transactions between the Bank and major shareholders

Major shareholders include shareholders of the Bank with a shareholding of 5% or above, or with the power to assign a director in the Bank.

Major transactions between the Group and its major shareholders were conducted under normal commercial terms and conditions in the ordinary course of business. Details are as follows:

	31 December	
	2017	2016
Balances at end of the year:		
Loans	840,000	1,145,000
Receivables	250,000	860,000
Interest receivable	1,745	2,431
Deposits	5,029,913	345,029
Interest payable	5,285	63

	Year ended 31 December	
	2017	2016
Transactions during the year:		
Interest income on loans	85,876	40,428
Interest expense on deposits	36,407	529
Fee and commission income	7,919	12,018
Interest rate ranges during the year are as follows:		
Loans	2.28%-7.11%	4.35%-6.33%
Deposits	0.30%-3.20%	0.30%-0.39%
Receivables	4.25%-4.65%	4.25%-5.00%

45 RELATED PARTY DISCLOSURES (continued)**(b) Related party transactions (continued)***(ii) Transactions between the Bank and subsidiaries*

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements. In the opinion of management, the transactions between the Bank and subsidiaries have no significant impact on profit or loss.

(iii) Transactions between the Bank and other related parties

Other related parties include the companies controlled or jointly controlled by the key management personnel and their close family members. During the year, the Group entered into transactions with other related parties in the ordinary course of business. Details are as follows:

	31 December	
	2017	2016
Balances at end of the year:		
Loans	6,159,253	5,784,361
Interest receivable	10,367	9,546
Deposits	12,190,259	19,933,118
Interest payable	38,560	8,915
	Year ended 31 December	
	2017	2016
Transactions during the year:		
Interest income on loans	242,070	290,072
Interest expense on deposits	90,445	36,798
Fee and commission income	62,790	52,061
Interest rate ranges during the year are as follows:		
Loans	3.21%–8.33%	2.28%–10.00%
Deposits	0.05%–4.00%	0.05%–2.94%

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45 RELATED PARTY DISCLOSURES (continued)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	31 December	
	2017	2016
Balances at end of the year:		
Loans	35,816	39,246
Interest receivable	63	72
Deposits	221,228	87,272
Interest payable	447	212

	Year ended 31 December	
	2017	2016
Transactions during the year:		
Interest income on loans	1,661	1,885
Interest expense on deposits	830	253
Interest rate ranges during the year are as follows:		
Loans	2.86%–15.00%	3.43%–7.27%
Deposits	0.01%–5.40%	0.01%–5.40%

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is as follows:

	Year ended 31 December	
	2017	2016
Emoluments and other short-term employee benefits	27,738	20,472

46 FINANCIAL RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The Board of Directors of the Group is responsible for setting the Group's overall risk tolerance, risk management and internal control strategies, supervising and ensuring that senior management performs risk management duties effectively. The Group has a Related Party Transactions and Risk Management Committee under the Board of Directors, which is responsible for monitoring the risk management of senior management, regularly evaluating the Group's situation of risk management, risk tolerance ability and level, and taking case precautions, reviewing and controlling the significant related party transactions. The Board of Supervisors is responsible for inspecting the Group's risk management and taking case precautions, comprehensively evaluating the risk management performance of the directors and senior management. Senior management is responsible for executing the policies of risk management and internal control approved by the Board of Directors, developing the specific rules and regulations of risk management. The Group has a Compliance and Risk Management Committee under senior management, which is responsible for reviewing the Group's significant matters of compliance and risk management.

The Compliance and Risk Management Department is the lead department of overall risk management, responsible for overall planning and coordination of risk management. The Credit Management Center, Assets Monitoring Center; Financial Market Business Management Department, Legal and Compliance Department and Financial and Accounting Department are responsible for leading managing credit risk, market risk, operation risk and liquidity risk. The Internal Audit Department is responsible for supervising, inspecting, evaluating and reporting the risk management's effect independently and objectively.

(a) Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The major credit risk of the Group comes from loans and advances to customers, investment portfolio, commitments and other on-balance sheet and off-balance sheet credit risk exposures.

The Group measures and manages the credit risk of its credit assets through the five-category system based on the "Guideline of Risk-based Classification of Loans" (the "Guideline") issued by the CBRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely normal, special-mention, sub-standard, doubtful and loss.

The five categories are defined by the Guideline as follows:

Normal: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

46 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring, and management. The Group enhances its credit risk management by strict compliance with its credit management procedures to identify, measure, monitor and manage the potential credit risk, which includes:

- strengthening customer investigation, lending approval and post lending monitoring;
- setting up authorisation limits over loan review and approval;
- establishing the internal assessment system in respect of the credit rating towards different kinds of customers, as the fundamental procedures for granting credit;
- setting up the authority limit over risk classification of credit assets, reviewing periodically and update risk classification of credit assets, and carrying out on-site sample review and off-site review to monitor the risk; and
- implementing and continuously upgrading the Credit Management System based on the requirements of risk management, developing and popularising various risk management tools.

In respect of the corporate loans, credit managers of the Group are responsible for accepting application from the applicants, carrying out credit investigation and making recommendations on credit rating through credit risk assessment of the applicants and their business. According to the authority limit over credit review and approval, applications will be assessed and authorised at the branch level or/and head office level. The credit limit will be determined based on assessment of the factors including the applicant's credit rating, financial position, collateral and guarantee, the overall credit risk of the portfolio, macro-economic policies, and restriction imposed by laws and regulations. The Group minimise losses over credit risk through: (1) collecting; (2) restructuring; (3) repossessing the collateral or resourcing from the guarantor; (4) seeking arbitration or pursuing lawsuits; and (5) written off according to relevant regulations.

Apart from the credit risk exposures on credit-related assets and deposits with banks and other financial institutions, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, centralised trading and setting the authorisation limit. In addition, the Group also provides financial guarantee service to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the contract. Risks arising from financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management procedures and policies. Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. Credit risk affecting the Group is primarily due to loans, debt instruments, guarantees, commitments as well as other risks both on and off the balance sheet.

Impairment assessment

Key factors in impairment assessment

The accounting policies regarding the Group's estimation of financial asset impairment of the Group are set out in note 2.4 (3) "Impairment of financial assets".

Regarding the debt investment, the Group assesses its impairment at the end of the year on individual and collective bases.

46 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

Individual assessment

The Group assesses whether objective evidence of impairment exists individually for corporate loans and discounted bills that are individually significant, and an impairment loss is estimated based on such individual assessment.

If there is objective evidence that an impairment loss on loans and advances has been incurred on an individual basis, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the credit asset's original effective interest rate. The allowance for the impairment loss is deducted in the carrying amount. In determining the allowance on an individual basis, the following factors are considered:

- the sustainability of the counterparty's business plan;
- its ability to improve performance once a financial difficulty has arisen;
- projected receipts and the expected dividend payout should bankruptcy ensue;
- the availability of other financial support and the realisable value of collateral; and
- the timing of the expected cash inflows.

Collective assessment

The loans that are assessed for impairment losses on a collective basis include the following:

- corporate loans that are individually insignificant;
- homogeneous groups of loans of similar credit risk, including all personal loans; and
- all loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Collateral

The Group implements specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level, the most typical of these is by obtaining collateral and guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of borrowers. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

- personal mortgage loans are generally collateralised by mortgages over residential properties;
- other personal lending and corporate loans and advances are mainly collateralised by charges over land and properties and other assets of the borrowers; and
- reverse repurchase transactions are mainly collateralised by bonds, bills or receivables under finance leases.

Corporate loans are mainly collateralised by properties or other assets. Personal loans are mainly collateralised by residential properties. The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

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46 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different industrial sectors and geographic areas have their unique characteristics in terms of economic development, and could present a different credit risk.

The Group's main operation is within Guangdong Province. For additional information about the analysis of concentration of loans and advances to customers by industry, please refer to note 46(a)(ii).

(i) *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

As at the end of the year, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

	31 December	
	2017	2016
Balances with central bank	101,324,397	79,687,717
Deposits with banks and other financial institutions	14,443,630	18,380,847
Placements with banks and other financial institutions	6,606,541	3,910,819
Financial assets at fair value through profit or loss	15,270,181	35,980,378
Reverse repurchase agreements	76,393,395	79,963,092
Loans and advances to customers	285,701,697	237,934,771
Financial investments		
— Receivables	90,919,325	76,012,399
— Held-to-maturity investments	59,902,988	25,782,157
— Available-for-sale financial assets	68,825,410	88,278,361
Others	6,615,355	5,512,428
Subtotal	726,002,919	651,442,969
Forward purchase commitments	—	200,000
Credit commitments	122,823,017	116,457,076
Total maximum credit risk exposure	848,825,936	768,100,045

46 FINANCIAL RISK MANAGEMENT (continued)**(a) Credit risk (continued)****(ii) Risk concentrations***By industry*

The credit risk exposures of the Group mainly comprise loans and advances to customers, amounts due from banks and other financial institutions and financial investments. Details of the composition of the Group's amounts due from banks and other financial institutions are set out in note 46(a)(iv), and the Group's financial investments are set out in note 46(a)(v) to the financial statements. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collateral
Loans and advances to customers:			
Agriculture, forestry, animal husbandry and fishing	5,212,505	1.77%	3,002,433
Mining	505,960	0.17%	378,321
Manufacturing	21,904,621	7.45%	15,793,194
Production and supply of electricity, gas and water	2,855,931	0.97%	1,907,313
Construction	10,219,924	3.48%	5,145,926
Transportation, storage and postal services	9,553,991	3.25%	5,635,975
Information transmission, computer services and software	3,074,292	1.05%	2,413,928
Wholesale and retail trades	29,360,166	9.99%	18,743,663
Accommodation and catering	7,593,569	2.58%	5,004,016
Finance	5,321,100	1.81%	1,761,445
Real estate	45,968,454	15.61%	33,886,442
Leasing and commercial services	30,017,750	10.21%	19,773,008
Scientific research, technological services and geological prospecting	811,675	0.28%	386,280
Water, environment and public utility management	7,713,316	2.62%	2,977,013
Resident, repair and other services	2,222,934	0.76%	1,428,525
Education	4,697,822	1.60%	3,991,583
Health, social security and social welfare	2,970,171	1.01%	1,256,806
Culture, sports and entertainment	2,490,316	0.85%	1,863,415
Public administration and social organisations	46,981	0.02%	8,350
Subtotal for corporate loans and advances	192,541,478	65.48%	125,357,636
Personal loans	96,252,402	32.74%	73,382,877
Discounted bills	5,219,393	1.78%	4,154,015
Total for loans and advances to customers	294,013,273	100.00%	202,894,528

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46 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ii) Risk concentrations (continued)

By industry (continued)

Loans and advances to customers:	31 December 2016		Loans and advances secured by collateral
	Amount	Percentage	
Agriculture, forestry, animal husbandry and fishing	4,347,044	1.77%	2,550,984
Mining	695,311	0.28%	497,897
Manufacturing	23,679,202	9.63%	16,805,544
Production and supply of electricity, gas and water	2,060,304	0.84%	962,700
Construction	9,875,543	4.02%	5,277,488
Transportation, storage and postal services	6,453,985	2.62%	3,498,820
Information transmission, computer services and software	2,950,044	1.20%	2,398,120
Wholesale and retail trades	25,937,735	10.56%	20,611,352
Accommodation and catering	7,551,007	3.07%	5,945,767
Finance	2,756,965	1.12%	1,514,659
Real estate	24,790,735	10.08%	20,905,841
Leasing and commercial services	24,014,817	9.77%	16,648,394
Scientific research, technological services and geological prospecting	450,582	0.18%	100,463
Water, environment and public utility management	8,059,176	3.28%	3,142,327
Resident, repair and other services	2,187,686	0.89%	1,937,338
Education	2,563,903	1.04%	2,241,577
Health, social security and social welfare	2,494,498	1.01%	921,663
Culture, sports and entertainment	1,622,286	0.66%	1,600,166
Public administration and social organisations	76,167	0.03%	12,469
Subtotal for corporate loans and advances	152,566,990	62.05%	107,573,569
Personal loans	81,328,237	33.07%	61,356,429
Discounted bills	11,996,069	4.88%	9,365,304
Total for loans and advances to customers	245,891,296	100.00%	178,295,302

46 FINANCIAL RISK MANAGEMENT (continued)**(a) Credit risk (continued)****(ii) Risk concentrations (continued)***By industry (continued)*

Details of impaired loans in respect of industry sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	31 December 2017						
	Gross amount	Impaired loans	Overdue loans	Allowance		Provision charged for the year	Write-off for the year
				Individually assessed	Collectively assessed		
Real estate	45,968,454	6,626	774,343	1,576	752,278	729,330	10,355
Leasing and commercial services	30,017,750	330,045	359,446	233,045	578,068	819,842	34,243

	31 December 2016						
	Gross amount	Impaired loans	Overdue loans	Allowance		Provision charged for the year	Write-off for the year
				Individually assessed	Collectively assessed		
Real estate	24,790,735	—	544,915	—	526,965	200,161	195,938
Wholesale and retail trades	25,937,735	1,009,908	2,173,787	637,076	550,622	1,093,928	1,316,928

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	31 December	
	2017	2016
Neither past due nor impaired	287,845,596	237,114,635
Past due but not impaired	1,717,040	4,321,127
Impaired	4,450,637	4,455,534
Subtotal	294,013,273	245,891,296
Less: Allowance for impairment losses	(6,550,292)	(6,722,629)
Collectively assessed	(1,761,284)	(1,233,896)
Individually assessed	(8,311,576)	(7,956,525)
Subtotal	285,701,697	237,934,771

Neither past due nor impaired

Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the year.

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46 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iii) Loans and advances to customers (continued)

Neither past due nor impaired (continued)

Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the year.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the year:

	31 December 2017			31 December 2016		
	Normal	Special Mention	Total	Normal	Special Mention	Total
Unsecured loans	25,475,051	303,525	25,778,576	21,590,966	285,929	21,876,895
Guaranteed loans	60,585,299	2,280,418	62,865,717	40,173,565	2,521,207	42,694,772
Loans secured by mortgages	172,865,665	3,271,833	176,137,498	144,672,176	2,711,521	147,383,697
Pledged loans	22,842,702	221,103	23,063,805	24,802,839	356,432	25,159,271
	281,768,717	6,076,879	287,845,596	231,239,546	5,875,089	237,114,635

Past due but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group that are subject to credit risk and are past due but not impaired as at the end of the year:

	31 December 2017			31 December 2016		
	Corporate loans and advances	Personal loans	Total	Corporate loans and advances	Personal loans	Total
Past due for:						
Less than one month	746,770	411,652	1,158,422	1,848,668	616,397	2,465,065
One to two months	63,286	186,574	249,860	213,597	321,691	535,288
Two to three months	215,063	92,044	307,107	326,110	226,805	552,915
Over three months	—	1,651	1,651	740,806	27,053	767,859
	1,025,119	691,921	1,717,040	3,129,181	1,191,946	4,321,127
Fair value of collateral held	2,505,014	1,216,733	3,721,747	5,029,852	1,587,983	6,617,835

Impaired

Impaired loans and advances are defined as those loans and advances have objective evidence of impairment as a result of one or more events that occurred after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

The fair values of collateral that the Group held relating to loans individually determined to be impaired as at 31 December 2017 amounted to RMB3,499,265 thousand (2016: RMB3,437,042). The collateral mainly consists of land, buildings and equipment.

Rescheduled loans and advances

Rescheduled loans and advances arise from rescheduling or deferring the repayment terms. Rescheduled loans and advances are under continuous monitoring by the Group.

The contractual amount of rescheduled loans and advances for the Group as at 31 December 2017 was RMB3,477,829 thousand (2016: RMB3,673,963 thousand).

46 FINANCIAL RISK MANAGEMENT (continued)**(a) Credit risk (continued)***(iv) Amounts due from banks and other financial institutions*

The Group executes regular review and management of credit risk related to individual financial institutions, and sets credit limits for individual banks and other financial institutions that it conducts business with. The balances due from banks and other financial institutions are as follows:

	31 December	
	2017	2016
Neither past due nor impaired	97,443,566	102,254,758
	97,443,566	102,254,758

Neither past due nor impaired

	31 December	
	2017	2016
Deposits with banks and other financial institutions	14,443,630	18,380,847
Placements with banks and other financial institutions	6,606,541	3,910,819
Reverse repurchase agreements	76,393,395	79,963,092
	97,443,566	102,254,758

Impaired

As at 31 December 2017, there is no impairment for deposits with banks and other financial institutions, placements with banks and other financial institutions and reverse repurchase agreements (2016: nil).

(v) Debt instruments

The credit risk of debt instruments mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt instruments 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 instruments by type of issuer and investment:

	31 December	
	2017	2016
Neither past due nor impaired	231,439,305	224,699,057
Past due but not impaired	1,519,841	—
Impaired	2,395,057	1,782,473
Subtotal	235,354,203	226,481,530
Less: Allowance for impairment losses	(436,299)	(428,235)
	234,917,904	226,053,295

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46 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(v) Debt instruments (continued)

Neither past due nor impaired

31 December 2017	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Government	—	22,497,872	4,784,494	700,325	27,982,691
Financial institutions					
— Policy banks	—	32,908,394	23,296,485	5,429,762	61,634,641
— Other banks and non-bank financial institutions	—	2,206,025	5,405,690	481,045	8,092,760
Corporate	—	2,300,798	3,618,700	872,606	6,792,104
Funds and others	—	—	30,200,200	7,582,116	37,782,316
Trust fund plans and asset management plans	89,154,793	—	—	—	89,154,793
Total	89,154,793	59,913,089	67,305,569	15,065,854	231,439,305

31 December 2016	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Government	—	8,050,822	12,801,575	187,701	21,040,098
Financial institutions					
— Policy banks	—	11,285,893	35,984,691	1,456,474	48,727,058
— Other banks and non-bank financial institutions	—	6,445,442	3,691,477	2,316,380	12,453,299
Corporate	—	—	5,287,416	2,997,459	8,284,875
Funds and others	—	—	30,462,148	28,818,037	59,280,185
Other financial assets, at cost	—	—	51,054	—	51,054
Trust fund plans and asset management plans	74,862,488	—	—	—	74,862,488
Total	74,862,488	25,782,157	88,278,361	35,776,051	224,699,057

46 FINANCIAL RISK MANAGEMENT (continued)**(a) Credit risk (continued)***(v) Debt instruments (continued)**Past due but not impaired*

Trust fund plans and asset management plans which are past due for less than one month as at 31 December 2017 were RMB1,519,841 thousand (2016: nil).

Impaired

31 December 2017	Financial assets at fair value through profit or loss		
	Receivables		Total
Corporate	—	204,327	204,327
Trust fund plans and asset management plans	2,190,730	—	2,190,730
Total	2,190,730	204,327	2,395,057

31 December 2016	Financial assets at fair value through profit or loss		
	Receivables		Total
Corporate	—	204,327	204,327
Trust fund plans and asset management plans	1,578,146	—	1,578,146
Total	1,578,146	204,327	1,782,473

Debt securities are analysed by credit rating as follows:

31 December 2017	Held-to-maturity investments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	
				Total
AAA	8,297,766	4,670,872	709,082	13,677,720
AA- to AA+	1,066,740	4,764,673	269,979	6,101,392
Non-rated (i)	50,538,482	27,669,824	6,709,004	84,917,310
Total	59,902,988	37,105,369	7,688,065	104,696,422

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46 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(v) Debt instruments (continued)

31 December 2016	Held-to-maturity investments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
AAA	4,028,696	4,683,914	1,770,806	10,483,416
AA- to AA+	350,000	3,881,961	199,689	4,431,650
Non-rated (i)	21,403,461	49,199,284	5,191,846	75,794,591
Total	25,782,157	57,765,159	7,162,341	90,709,657

(i) The non-rated debt securities classified as held-for-trading, available-for-sale and held-to-maturity mainly consist of investment and trading securities issued by the MOF, central bank, policy banks and other financial institutions which are creditworthy issuers in the market, but are not rated by independent rating agencies.

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims to:

- optimise the structure of assets and liabilities;
- maintain the stability of the deposit base;
- project cash flows and evaluate the level of current assets; and
- in terms of liquidity of the branches, maintain an efficient internal fund transfer mechanism.

The Group's expected remaining maturity of their financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

46 FINANCIAL RISK MANAGEMENT (continued)**(b) Liquidity risk (continued)**

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

31 December 2017	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	—	32,318,924	—	—	—	—	—	71,448,516	103,767,440
Deposits and placements with banks and other financial institutions (i)	—	6,078,170	68,471,107	6,440,732	16,343,903	—	—	109,654	97,443,566
Financial assets at fair value through profit or loss	204,327	7,582,116	1,311,741	10,004	1,445,204	2,819,490	1,897,299	—	15,270,181
Loans and advances to customers	4,040,492	—	24,369,349	13,536,143	86,410,868	103,802,855	53,541,990	—	285,701,697
Financial investments	1,590,453	1,519,841	11,114,383	15,579,912	54,581,350	117,179,605	18,082,179	51,154	219,698,877
Other financial assets	149,952	826,388	1,292,219	1,458,806	2,564,887	178,535	1,073	143,495	6,615,355
Total financial assets	5,985,224	48,325,439	106,558,799	37,025,597	161,346,212	223,980,485	73,522,541	71,752,819	728,497,116
Financial liabilities:									
Due to central bank	—	—	—	172,000	958,600	—	—	—	1,130,600
Deposits and placements from banks and other financial institutions (ii)	—	6,421,520	30,521,325	3,120,246	29,308,977	1,500,000	—	—	70,872,068
Due to customers (iii)	—	230,990,326	26,088,636	46,973,680	97,768,495	86,703,440	147,279	—	488,671,856
Debt securities issued	—	—	1,477,613	22,011,023	73,798,495	4,096,646	—	—	101,383,777
Other financial liabilities	—	2,845,128	1,903,641	1,422,440	8,643,067	6,928,275	123,543	7,354	21,873,448
Total financial liabilities	—	240,256,974	59,991,215	73,699,389	210,477,634	99,228,361	270,822	7,354	683,931,749
Net liquidity gap	5,985,224	(191,931,535)	46,567,584	(36,673,792)	(49,131,422)	124,752,124	73,251,719	71,745,465	44,565,367

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

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46 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

31 December 2016	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	—	25,103,301	—	—	—	—	—	57,919,641	83,022,942
Deposits and placements with banks and other financial institutions (i)	—	685,363	77,799,632	13,428,315	10,232,835	—	—	108,613	102,254,758
Financial assets at fair value through profit or loss	204,327	28,818,037	1,568,848	862,961	1,283,591	2,932,893	309,721	—	35,980,378
Loans and advances to customers	7,267,894	—	15,124,230	17,007,611	79,659,024	78,835,224	40,040,788	—	237,934,771
Financial investments	1,340,042	1,013	3,454,445	12,995,994	67,118,088	87,755,916	17,356,365	51,054	190,072,917
Other financial assets	153,046	245,155	1,477,676	952,083	2,414,404	116,113	10,149	143,802	5,512,428
Total financial assets	8,965,309	54,852,869	99,424,831	45,246,964	160,707,942	169,640,146	57,717,023	58,223,110	654,778,194
Financial liabilities:									
Due to central bank	—	—	—	130,000	407,000	—	—	—	537,000
Deposits and placements from banks and other financial institutions (ii)	—	1,774,932	55,946,851	3,409,600	21,445,666	1,400,000	—	—	83,977,049
Due to customers (iii)	—	192,182,951	31,314,876	42,193,365	94,828,318	62,182,528	1,040,000	—	423,742,038
Debt securities issued	—	—	3,194,040	15,024,055	69,980,156	4,097,125	—	—	92,295,376
Other financial liabilities	—	588,641	1,267,341	2,185,018	9,813,258	5,178,787	121,390	—	19,154,435
Total financial liabilities	—	194,546,524	91,723,108	62,942,038	196,474,398	72,858,440	1,161,390	—	619,705,898
Net liquidity gap	8,965,309	(139,693,655)	7,701,723	(17,695,074)	(35,766,456)	96,781,706	56,555,633	58,223,110	35,072,296

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

46 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Liquidity risk (continued)***(ii) Maturity analysis of contractual undiscounted cash flows*

The tables below summarise the maturity profile of the Group's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

31 December 2017	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	—	32,355,286	—	—	—	—	—	71,448,516	103,803,802
Deposits and placements with banks and other financial institutions (i)	—	6,078,975	68,224,506	6,939,028	16,855,227	—	—	109,654	98,207,390
Financial assets at fair value through profit or loss	231,927	7,582,116	1,350,405	23,014	2,307,801	2,947,122	1,965,695	—	16,408,080
Loans and advances to customers	4,063,170	—	14,763,873	15,816,536	95,213,768	1226,529,206	72,164,343	—	328,550,896
Financial investments	1,641,072	1,613,440	11,657,496	16,390,485	57,648,823	134,237,819	19,264,618	51,154	242,504,907
Other financial assets	—	695,617	7,612	3,015	19,667	21,808	1,074	143,495	892,288
Total financial assets	5,936,169	48,325,434	96,003,892	39,172,078	172,045,286	263,735,955	93,395,730	71,752,819	790,367,363
Financial liabilities:									
Due to central bank	—	—	—	179,597	967,692	—	—	—	1,147,289
Deposits and placements from banks and other financial institutions (ii)	—	6,423,906	30,637,377	3,176,524	30,749,654	2,360,985	—	—	73,348,446
Due to customers (iii)	—	231,408,416	26,725,799	48,276,312	101,189,363	92,809,588	148,685	—	500,558,163
Debt securities issued	—	—	1,440,968	21,720,714	74,657,800	4,869,980	—	—	102,689,462
Other financial liabilities	—	2,626,571	1,618,750	748,751	7,062,113	2,259,103	92,456	7,354	14,415,098
Total financial liabilities	—	240,458,893	60,422,894	74,101,898	214,626,622	102,299,656	241,141	7,354	692,158,458
Net liquidity gap	5,936,169	(192,133,459)	35,580,998	(34,929,820)	(42,581,336)	161,436,299	93,154,589	71,745,465	98,208,905

- (i) Includes reverse repurchase agreements.
- (ii) Includes repurchase agreements.
- (iii) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

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46 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

31 December 2016	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	—	25,129,448	—	—	—	—	—	57,919,641	83,049,089
Deposits and placements with banks and other financial institutions (i)	—	690,361	77,871,468	13,593,165	10,590,603	—	—	108,613	102,854,210
Financial assets at fair value through profit or loss	231,927	28,826,502	1,636,104	921,259	1,404,174	3,159,279	354,214	—	36,533,459
Loans and advances to customers	7,304,526	—	15,959,845	18,520,655	86,727,312	96,103,737	51,636,319	—	276,252,394
Financial investments	1,401,755	1,013	4,208,429	14,323,928	72,455,346	99,312,155	19,996,252	51,054	211,749,932
Other financial assets	—	201,886	337,272	44,334	38,640	67,355	10,072	143,802	843,361
Total financial assets	8,938,208	54,849,210	100,013,118	47,403,341	171,216,075	198,642,526	71,996,857	58,223,110	711,282,445
Financial liabilities:									
Due to central bank	—	—	—	133,169	410,899	—	—	—	544,068
Deposits and placements from banks and other financial institutions (ii)	—	1,775,747	56,035,330	3,526,420	21,870,458	1,751,400	—	—	84,959,355
Due to customers (iii)	—	192,280,152	32,403,090	43,470,415	99,212,848	73,420,028	1,334,725	—	442,121,258
Debt securities issued	—	—	3,200,000	15,110,000	71,786,310	4,869,980	—	—	94,966,290
Other financial liabilities	—	489,190	714,039	1,395,885	8,016,955	887,789	103,150	—	11,607,008
Total financial liabilities	—	194,545,089	92,352,459	63,635,889	201,297,470	80,929,197	1,437,875	—	634,197,979
Net liquidity gap	8,938,208	(139,695,879)	7,660,659	(16,232,548)	(30,081,395)	117,713,329	70,558,982	58,223,110	77,084,466

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

(iii) Analysis of credit commitments by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2017								
Credit commitments	100,181,474	1,310,381	2,119,266	7,889,442	11,322,454	—	—	122,823,017
31 December 2016								
Credit commitments	86,453,541	2,268,629	3,705,725	18,604,858	5,424,323	—	—	116,457,076
Forward purchase commitments	—	—	—	200,000	—	—	—	200,000

46 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group's market risk contains currency risk, interest rate risk and other price risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly arises from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank uses different management methods to control market risk which comprises trading book and banking book risks respectively.

The Group considers the market risk arising from commodity or stock price fluctuations in respect of its investment portfolios to be immaterial.

(i) Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly arise from the Group's treasury exposures and foreign exchange business.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, the actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk are not incorporated.

Currency	Change in rate	Effect on net profit	
		31 December 2017	31 December 2016
USD	(1)%	(30,449)	(3,782)
HKD	(1)%	(12,079)	(1,149)

While the table above indicates the effect on profit before tax of 1% depreciation of USD and HKD, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

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46 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

31 December 2017	RMB	USD	HKD	Others	Total
		(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	
Assets:					
Cash and balances with central bank	103,540,450	172,995	44,720	9,275	103,767,440
Deposits and placements with banks and other financial institutions	90,551,364	6,166,473	484,229	241,500	97,443,566
Financial assets at fair value through profit or loss	15,270,181	—	—	—	15,270,181
Loans and advances to customers	283,736,515	1,965,182	—	—	285,701,697
Financial investments	218,490,987	—	1,207,890	—	219,698,877
Other financial assets	6,559,182	29,536	21,555	5,082	6,615,355
Total financial assets	718,148,679	8,334,186	1,758,394	255,857	728,497,116
Liabilities:					
Due to central bank	1,130,600	—	—	—	1,130,600
Deposits and placements from banks and other financial institutions	69,065,191	1,806,877	—	—	70,872,068
Due to customers	485,858,349	2,446,889	141,121	225,497	488,671,856
Debt securities issued	101,383,777	—	—	—	101,383,777
Other financial liabilities	21,841,375	20,574	6,741	4,758	21,873,448
Total financial liabilities	679,279,292	4,274,340	147,862	230,255	683,931,749
Net exposure	38,869,387	4,059,846	1,610,532	25,602	44,565,367

46 FINANCIAL RISK MANAGEMENT (continued)**(c) Market risk (continued)***(i) Currency risk (continued)*

31 December 2016	RMB	USD	HKD	Others	Total
		(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	
Assets:					
Cash and balances with central bank	82,929,631	55,164	34,252	3,895	83,022,942
Deposits and placements with banks and other financial institutions	100,439,849	1,204,150	596,078	14,681	102,254,758
Financial assets at fair value through profit or loss	35,980,378	—	—	—	35,980,378
Loans and advances to customers	237,763,792	170,979	—	—	237,934,771
Financial investments	190,072,917	—	—	—	190,072,917
Other financial assets	5,506,707	5,227	494	—	5,512,428
Total financial assets	652,693,274	1,435,520	630,824	18,576	654,778,194
Due to central bank	537,000	—	—	—	537,000
Deposits and placements from banks and other financial institutions	83,659,772	263,606	53,671	—	83,977,049
Due to customers	422,647,798	665,366	423,553	5,321	423,742,038
Debt securities issued	92,295,376	—	—	—	92,295,376
Other financial liabilities	19,151,818	2,217	395	5	19,154,435
Total financial liabilities	618,291,764	931,189	477,619	5,326	619,705,898
Net exposure	34,401,510	504,331	153,205	13,250	35,072,296

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46 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk

The Group's bank account interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net profit and equity.

	Effect on net profit		Effect on equity	
	31 December		31 December	
	2017	2016	2017	2016
Change in basis points				
+100 basis points	(424,262)	(413,575)	(563,444)	(1,240,625)
-100 basis points	424,262	413,575	589,349	1,303,809

The sensitivity of the net profit is the effect of a reasonable possible change in interest rates on the net profit for one year, in respect of the financial assets and liabilities held at the end of the reporting period. The effect on other comprehensive income is calculated by revaluing the year end portfolio of fixed-rate available-for-sale financial assets, based on a reasonable possible change in interest rates.

The above sensitivity analyses are based on the following assumptions: (i) all assets and liabilities that are repriced/due within three months (inclusive), and between three months and one year (inclusive) are assumed to be repriced in the mid of the respective bands; (ii) there are parallel shifts in the yield curve; and (iii) there are no other changes in the portfolios of assets and liabilities. The Group considers that the assumptions do not reflect their capital utilisation and interest rate risk management policies. Therefore, the above impact may differ from the actual situation.

Moreover, the above analysis is for illustration only and represents the effect of pro forma movements in net profit and other comprehensive income based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk.

46 FINANCIAL RISK MANAGEMENT (continued)**(c) Market risk (continued)***(ii) Interest rate risk (continued)*

31 December 2017	Less than three months	Three months to one year	One to five years	More than five years	Overdue/ Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	101,176,214	—	—	—	2,591,226	103,767,440
Deposits and placements with banks and other financial institutions (i)	81,098,344	16,343,903	—	—	1,319	97,443,566
Financial assets at fair value through profit or loss	2,976,255	11,780,569	309,030	—	204,327	15,270,181
Loans and advances to customers	44,122,850	222,662,971	13,163,388	1,711,996	4,040,492	285,701,697
Financial investments	57,503,857	105,442,668	53,590,905	—	3,161,447	219,698,877
Other financial assets	—	—	—	—	6,615,355	6,615,355
Total financial assets	286,877,520	356,230,111	67,063,323	1,711,996	16,614,166	728,497,116
Liabilities:						
Due to central bank	172,000	958,600	—	—	—	1,130,600
Deposits and placements from banks and other financial institutions (ii)	40,063,091	29,308,977	1,500,000	—	—	70,872,068
Due to customers	304,052,642	97,768,495	86,703,439	147,280	—	488,671,856
Debt securities issued	23,488,635	73,798,495	4,096,647	—	—	101,383,777
Other financial liabilities	1,071,327	6,699,000	1,323,320	—	12,779,801	21,873,448
Total financial liabilities	368,847,695	208,533,567	93,623,406	147,280	12,779,801	683,931,749
Total interest sensitivity gap	(81,970,175)	147,696,544	(26,560,083)	1,564,716	3,834,365	44,565,367

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

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46 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

31 December 2016	Less than three months	Three months to one year	One to five years	More than five years	Overdue/ Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	79,647,570	—	—	—	3,375,372	83,022,942
Deposits and placements with banks and other financial institutions (i)	92,020,305	10,232,835	—	—	1,618	102,254,758
Financial assets at fair value through profit or loss	31,249,846	1,283,591	2,932,893	309,721	204,327	35,980,378
Loans and advances to customers	44,077,812	177,217,059	8,886,202	485,804	7,267,894	237,934,771
Financial investments	16,893,701	69,402,970	86,492,164	15,892,986	1,391,096	190,072,917
Other financial assets	80,742	—	—	—	5,431,686	5,512,428
Total financial assets	263,969,976	258,136,455	98,311,259	16,688,511	17,671,993	654,778,194
Liabilities:						
Due to central bank	130,000	407,000	—	—	—	537,000
Deposits and placements with banks and other financial institutions (ii)	61,131,383	21,445,666	1,400,000	—	—	83,977,049
Due to customers	265,691,192	94,828,318	62,182,528	1,040,000	—	423,742,038
Debt securities issued	18,218,095	69,980,156	4,097,125	—	—	92,295,376
Other financial liabilities	1,760,000	7,755,000	160,000	—	9,479,435	19,154,435
Total financial liabilities	346,930,670	194,416,140	67,839,653	1,040,000	9,479,435	619,705,898
Total interest sensitivity gap	(82,960,694)	63,720,315	30,471,606	15,648,511	8,192,558	35,072,296

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

46 FINANCIAL RISK MANAGEMENT (continued)

(d) Capital management

The Group follows the following capital management principles:

- Maintain the high quality and adequacy of capital to meet asset regulatory requirements, support business growth and advance the sustainable development scale in the Group;
- Sufficiently identify, calculate, monitor, mitigate and control various types of risks, ensuring that the capital employed is commensurate with the related risks and the level of risk management of the Group; and
- Optimise asset structure and allocate capital properly, to steadily improve the efficiency and return of capital, and advance the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management by employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis. From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBRC.

The Group's regulatory capital is managed by its financial department and consists of the following:

- Common equity tier 1 capital, mainly including share capital, capital reserve, surplus reserve, general reserve, retained profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests; and
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

The Group implements a weighted approach to measuring credit risk-weighted assets, which are determined according to the credit risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee, with adjustments made to reflect the potential losses. Market risk-weighted assets and operational risk weighted assets are calculated using the standardised approach and basic indicator approach, respectively.

The Group takes various measures to manage risk-weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

The Group was in compliance with the capital requirement promulgated by the regulators in the reporting period. The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBRC.

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46 FINANCIAL RISK MANAGEMENT (continued)

(d) Capital management (continued)

	31 December 2017	31 December 2016
Common equity tier 1 capital adequacy ratio	10.69%	9.90%
Tier 1 capital adequacy ratio	10.72%	9.92%
Capital adequacy ratio	12.00%	12.16%
Common equity tier 1 capital		
Share capital	9,808,269	8,153,419
Capital reserve	10,581,739	4,839,809
Surplus reserve	3,777,432	3,200,146
General reserve	8,718,218	8,020,433
Retained profits	15,114,407	12,311,444
Eligible portion of minority interests	991,179	1,103,431
Others	(1,955,550)	(680,011)
Regulatory deductions		
Goodwill (net of deferred tax liabilities)	382,216	—
Other intangible assets (except land use rights)	208,071	115,898
Net common equity tier 1 capital	46,445,407	36,832,773
Eligible portion of minority interests	132,157	92,889
Net tier 1 capital	46,577,564	36,925,662
Tier 2 capital		
Tier 2 capital instruments issued and related premium	4,096,648	6,195,304
Excess loan loss provisions	1,144,233	1,883,801
Eligible portion of minority interests	328,664	272,015
Net capital	52,147,109	45,276,782
Risk-weighted assets	434,513,306	372,211,309

47 FAIR VALUE OF FINANCIAL INSTRUMENTS**(a) Financial instruments measured at fair value***Determination of fair value and fair value hierarchy*

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: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy:

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Debt securities	—	7,483,738	204,327	7,688,065
Funds and other investments	7,582,116	—	—	7,582,116
Available-for-sale financial assets				
Debt securities	—	37,055,094	50,275	37,105,369
Funds and other investments	—	—	31,720,041	31,720,041
	7,582,116	44,538,832	31,974,643	84,095,591

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Debt securities	—	6,958,014	204,327	7,162,341
Funds and other investments	28,818,037	—	—	28,818,037
Available-for-sale financial assets				
Debt securities	—	57,765,159	—	57,765,159
Funds and other investments	—	—	30,462,148	30,462,148
	28,818,037	64,723,173	30,666,475	124,207,685

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47 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Financial instruments measured at fair value (continued)

Determination of fair value and fair value hierarchy (continued)

The following tables present the changes in Level 3 assets for the year ended 31 December 2017 and 2016:

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Total
	Debt securities	Debt securities	Funds and other investments		
			Debt securities	Funds and other investments	
At 1 January 2017	204,327	—	30,462,148		30,666,475
Purchase	—	50,275	29,809,000		29,859,275
Total gains and losses					
— realised loss	—	—	136,779		136,779
— other comprehensive income	—	—	(328,018)		(328,018)
Settlement	—	—	(28,359,868)		(28,359,868)
At 31 December 2017	204,327	50,275	31,720,041		31,974,643

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Total
	Debt securities	Debt securities	Funds and other investments		
			Debt securities	Funds and other investments	
At 1 January 2016	—	9,851	14,760,500		14,770,351
Purchase	—	—	19,696,013		19,696,013
Transfers into Level 3	204,327	—	—		204,327
Total gains and losses					
— other comprehensive income	—	—	(243,865)		(243,865)
Settlement	—	(9,851)	(3,750,500)		(3,760,351)
At 31 December 2016	204,327	—	30,462,148		30,666,475

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**(a) Financial instruments measured at fair value (continued)***Determination of fair value and fair value hierarchy (continued)*

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Valuation techniques	Unobservable input
Financial assets at fair value through profit or loss				
— Debt securities	204,327	204,327	Discounted cash flow	Risk-adjusted discount rate, cash flow
Available-for-sale financial assets				
— Debt securities	50,275	—	Discounted cash flow	Risk-adjusted discount rate, cash flow
— Funds and other investments	31,720,041	30,462,148	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the years ended 31 December 2017 and 2016, there were no significant change in the valuation techniques.

As at 31 December 2017 and 2016, unobservable inputs such as estimated future cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly asset management plans and wealth management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value measurement on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis.

The fair value of financial instruments are, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel shift of plus or minus 2 per cent to reasonably possible change of assumptions.

Notes to Financial Statements

31 December 2017

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

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Financial instruments measured at fair value (continued)

Determination of fair value and fair value hierarchy (continued)

	31 December 2017		31 December 2016	
	Effect on profit or loss or other comprehensive income		Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss				
— Debt securities	4,087	(4,087)	4,087	(4,087)
Available-for-sale financial assets				
— Debt securities	1,006	(1,006)	—	—
— Funds and other investments (reflected in OCI)	634,401	(634,401)	609,243	(609,243)

There are no transfers between Level 1 and Level 2 for financial assets measured at fair value during the year of 2017 and 2016.

(b) Financial instruments for which fair values are disclosed

Financial assets and liabilities not presented at fair value on the statement of financial position mainly represent "Balances with central bank", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Loans and advances to customers", "Financial investments" classified as "Held-to-maturity investments" and "Receivables", "Due to central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Due to customers" measured at amortised cost, and "Debt securities issued".

The tables below summarise the carrying amounts and fair values of "Debt securities" classified as "Held-to-maturity investments" and "Receivables", and "Debt securities issued" not presented at fair value on the statement of financial position.

	Carrying value	
	31 December 2017	31 December 2016
Financial assets		
Debt securities (i)		
Receivables	90,919,325	76,012,399
Held-to-maturity investments	59,902,988	25,782,157
	150,822,313	101,794,556
Financial liabilities		
Bonds issued (ii)	101,383,777	92,295,376

	Fair value	
	31 December 2017	31 December 2016
Financial assets		
Debt securities (i)		
Receivables	90,919,325	76,012,399
Held-to-maturity investments	59,339,547	26,037,010
	150,258,872	102,049,409
Financial liabilities		
Bonds issued (ii)	101,144,718	92,189,741

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**(b) Financial instruments for which fair values are disclosed (continued)***(i) Debt securities classified as "Held-to-maturity investments" and "Receivables"*

Fair values of debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Group will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd.

(ii) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

The tables below summarise the three levels of fair values of "Debt securities" classified as "Held-to-maturity investments" and "Receivables", and "Bonds issued" not presented at fair value on the statement of financial position.

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets disclosed at fair value				
Receivables	—	—	90,919,325	90,919,325
Held-to-maturity investments	—	59,339,547	—	59,339,547
	—	59,339,547	90,919,325	150,258,872
Financial liabilities disclosed at fair value				
— Bonds issued	—	101,144,718	—	101,144,718

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets disclosed at fair value				
Receivables	—	—	76,012,399	76,012,399
Held-to-maturity investments	—	26,037,010	—	26,037,010
	—	26,037,010	76,012,399	102,049,409
Financial liabilities disclosed at fair value				
— Bonds issued	—	92,189,741	—	92,189,741

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**(b) Financial instruments for which fair values are disclosed (continued)***Determination of fair value and fair value hierarchy*

Financial assets at fair value through profit or loss and available-for-sale financial assets are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of discounted cash flows or pricing models. For debt securities, the fair values of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., and the valuation results are determined based on a valuation technique for which all significant inputs are observable market data.

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

- (i) The receivables are not quoted in an active market. In the absence of any other relevant observable market, the fair values of receivables are estimated on the basis of pricing models or discounted cash flows.
- (ii) The fair values of held-to-maturity investments, subordinated bonds and financial bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

All of the abovementioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

The following are the financial instruments for which their carrying amounts are the reasonable approximations of their fair values. The carrying amounts are reasonable approximation because, for example, these financial instruments are short-term in nature or repriced at current market rates frequently.

Assets	Liabilities
Cash and balances with central bank	Due to central bank
Deposits with banks and other financial institutions	Deposits from banks and other financial institutions
Placements with banks and other financial institutions	Placements from banks and other financial institutions
Reverse repurchase agreements	Repurchase agreements
Loans and advances to customers	Due to customers
Other financial assets	Other financial liabilities

48 EVENTS AFTER THE REPORTING PERIOD

Except for the disclosures elsewhere in the financial statements, the Group has the following significant event after the reporting period.

Pursuant to the approval of the PBOC and the CBRC, the Bank issued Tier 2 capital bonds whose total amount is RMB10 billion in the domestic inter-bank bond market on 23 March 2017. The bonds had a maturity of 10 years, with a fixed coupon rate of 4.90%. The Bank has the option to early redeem the bonds at the end of the fifth year.

49 STATEMENT OF FINANCIAL POSITION OF THE BANK

	31 December 2017	31 December 2016
ASSETS		
Cash and balances with central bank	95,166,451	77,806,908
Deposits with banks and other financial institutions	6,028,473	11,249,032
Placements with banks and other financial institutions	6,158,541	2,605,819
Financial assets at fair value through profit or loss	15,270,181	35,980,378
Reverse repurchase agreements	75,661,063	79,963,092
Loans and advances to customers	250,877,347	209,357,044
Financial investments	216,198,327	188,291,904
Investments in subsidiaries	2,898,757	2,109,737
Property and equipment	1,589,900	1,805,159
Deferred tax assets	3,259,759	2,992,207
Other assets	7,217,712	6,069,881
TOTAL ASSETS	680,326,511	618,231,161
LIABILITIES		
Deposits from banks and other financial institutions	46,168,319	35,732,916
Placements from banks and other financial institutions	3,172,433	1,798,321
Repurchase agreements	23,829,470	48,597,796
Due to customers	446,411,522	393,142,313
Income tax payable	433,084	1,070,965
Debt securities issued	101,383,777	92,295,376
Other liabilities	13,534,496	10,093,684
TOTAL LIABILITIES	634,933,101	582,731,371
EQUITY		
Equity attributable to equity holders of the parent company		
Share capital	9,808,269	8,153,419
Reserves	20,660,403	15,015,459
Retained profits	14,924,738	12,330,912
TOTAL EQUITY	45,393,410	35,499,790
TOTAL EQUITY AND LIABILITIES	680,326,511	618,231,161

50 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2018.

Definitions

“the Company”, “the Bank”, “our Bank” or
“Guangzhou Rural Commercial Bank”
“Articles of Association” or “Articles”

“Sannong”
“county bank(s)”

“One Belt, One Road”
“Reporting Period”
“CBRC”
“Guangdong Bureau of CBRC”
“CSRC”
“AGM”
“Board of Directors”
“Board of Supervisors”

“Domestic Shares”

“Listing Rules”

“RMB”
“USD”
“IFRS”

“Latest Practicable Date”

Guangzhou Rural Commercial Bank Co., Ltd.

the articles of association of the Bank, which was passed by the shareholders of the Bank at the extraordinary general meeting held on September 7, 2016 and was approved by the CBRC, Guangdong Bureau on December 23, 2016 to take effect after the listing (as amended, supplemented or otherwise revised from time to time) agriculture, rural areas and farmers

bank institutions that are approved by CBRC to be incorporated in rural areas to provide services to local farmers or enterprises “Silk Road Economic Belt” and the “21st Century Maritime Silk Road” For the year from 1 January 2017 to 31 December 2017

China Banking Regulatory Commission

Guangdong Bureau of China Banking Regulatory Commission

China Securities Regulatory Commission

annual general meeting of the Bank

the board of directors of the Bank

the board of supervisors of the Bank

“H Shares the foreign shares which are registered in Mainland China and listed in Hong Kong

the ordinary shares with a nominal value of RMB1.00 each issued by the Bank, which are subscribed for or credited as paid up in RMB

the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

the lawful currency of the People’s Republic of China

the lawful currency of the United States of America

International Financial Reporting Standards and International

Accounting Standards (“IAS”), which include the related standards, amendments and interpretations issued by the International

Accounting Standard Board (“IASB”)

March 26, 2018



广州农商银行

GUANGZHOU RURAL COMMERCIAL BANK