



**甘肅銀行股份有限公司\***

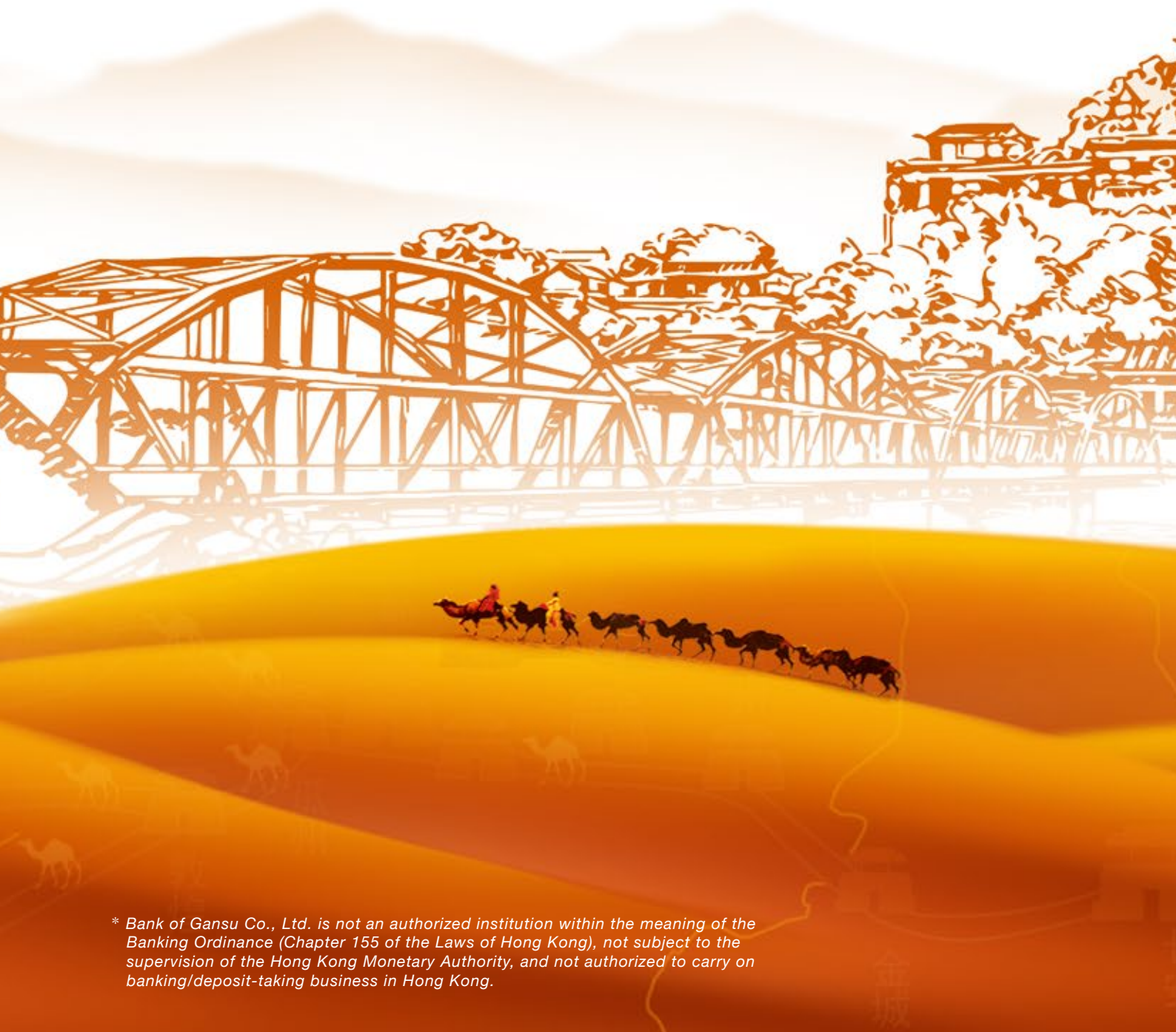
**BANK OF GANSU CO., LTD.\***

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

**Stock Code: 2139**

# 年度報告 2017

2017 ANNUAL REPORT



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



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# Chairman's Statement



The year 2017 is a landmark year in the history of the development of Bank of Gansu.

We insisted on improving our continuous profitability. Faced with the complex economic environment and fierce market competition, the Bank focused on building the business development system of “six ones” and “seven threes” in accordance with the development strategic objectives determined by the Board of Directors. The scale of assets continued to expand, and the level of profitability hit a record high. The quality of assets was controllable overall, and the main business maintained a steady development trend. As of the end of 2017, according to the data prepared based on international financial reporting standards, the total assets in the consolidated financial statements were RMB271.148 billion, representing a year-on-year increase of 10.65%; the net amount of loans was RMB125.255 billion, representing a year-on-year increase of 20.33%; the balance of general deposits was RMB192.231 billion, representing a year-on-year increase of 12.31%; and the net profit was RMB3.364 billion, representing a year-on-year increase of 75.12%.

We insisted on enhancing the power of openness and innovation, actively responded to the challenges of change and continued to carry forward the spirit of Bank of Gansu “think, act, thrive and succeed”. We planned and implemented according to the actual situation, with employees working together to push us forward. We endeavored to promote the listing and issuance of H shares. On January 18, 2018, we successfully listed on the Main Board of the Hong Kong Stock Exchange and became the first listed bank in the northwest region, which has greatly enhanced our market influence, overall

## Chairman's Statement

competitiveness and brand value. With the principle of “starting with high standards and implementing with high quality”, we took 22 months to launch the next-generation core banking system, which provided strong support for the sustainable development of various businesses.

We insisted on strengthening top-level strategy leadership. The Board of Directors paid close attention to macro policies, regulatory trends, market dynamics and peer information, conscientiously performed the duties and responsibilities entitled by the shareholders' general meeting, carried out standard operations, made scientific decisions, and continued to improve the level of corporate governance. We comprehensively revised the Articles of Association and the rules of procedure for shareholders' general meetings, the Board of Directors and the special committees. We elected and re-elected some shareholder directors and independent directors and the information disclosure mechanism has been continuously improved to promote the effective implementation of the statutory duties of the “shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management”. By focusing on the post-listing development goals, we completed the preparation of the new three-year development strategic plan to provide guidance for future development.

In the past year, we won the “Governor Financial Award” for the fourth time and were awarded as the “Top Ten Targeted Poverty Alleviation Bank” by Financial News, and “Excellent Issuer Organization” and “Excellent Self-operating Organization” by China Central Depository & Clearing Co., Ltd. We obtained the underwriter qualification of non-financial corporate debt financing instruments and officially became a member of foreign currency lending in the interbank foreign exchange market; our direct selling bank won the annual “Innovation and Application Award” granted by China Electronic Banking Network; our anti-money laundering work was rated as Class A by the People's Bank of China for three consecutive years; we won two third prizes in the information technology project and research project of the People's Bank of China and China Banking Regulatory Commission. According to the “Top 100 Enterprises of China Banking” issued by China Banking Association in 2017, the Bank ranked 69th in the national commercial banks in terms of core tier 1 net capital.

These achievements were made under the firm support of investors, the intensive assistance of governments at all levels, the careful guidance of regulatory agencies, the full trust of our customers, and the hard work of all employees. On behalf of the Board of Directors, I would like to extend my respect and heartfelt thanks to all sectors that support the Bank's reform and development!

2018 is the first year for the listing of the Bank on the Hong Kong Stock Exchange, which marked the development of the Bank entered a new era. Under the guideline of the new three-year development strategic plan and based on the arrangement of the Board of Directors, we will pay close attention to the changes in the economic and financial situation, adhere to the principle of seeking progress in stability, prevention of risks, and supporting the real economy to overcome difficulties and we will never forget why we started and improve our business with the unremitting tenacity and hardworking style. We will endeavor to break new ground in our bank's work and build a first-class listed city commercial bank in the west of China.



LI Xin

*Chairman of the Board of Directors*

# Chapter 1 Definitions

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

“Articles of Association” or “Articles”	the articles of association of the Bank
“Baiyin City Commercial Bank”	the former Baiyin City Commercial Bank Co., Ltd. (白銀市商業銀行股份有限公司). In May 2011, 25 legal entities, all the shareholders of Baiyin City Commercial Bank and all the shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“Bank”, “our Bank”	Bank of Gansu Co., Ltd. (甘肅銀行股份有限公司), a joint stock company incorporated in Gansu province, the PRC on November 18, 2011 with limited liability in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Baoshang Bank”	Baoshang Bank Co., Ltd. (包商銀行股份有限公司), a city commercial bank incorporated in the PRC on December 16, 1998, of which Baotou Taiping Business Group Co., Ltd. (包頭市太平商貿集團有限公司) is its largest shareholder, holding 9.07% of its equity interests. As of the Latest Practicable Date, Baoshang Bank held approximately 8.39% of our Shares
“Board of Directors”, “Board”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
“CAGR”	compound annual growth rate
“Capital Adequacy Ratio Measures”	the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks (《商業銀行資本充足率管理辦法》) promulgated by the CBRC on February 23, 2004 and effective on March 1, 2004 and amended on July 3, 2007, which were later abolished by the Capital Administrative Measures on January 1, 2013
“Capital Administrative Measures”	the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) promulgated by the CBRC on June 7, 2012 and effective on January 1, 2013

## Chapter 1 Definitions

“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CBRC Gansu Office”	the China Banking Regulatory Commission Gansu Office (中國銀行業監督管理委員會甘肅監管局)
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the same meaning ascribed to it under Chapter 14A of the Hong Kong Listing Rules
“Core Indicators (Provisional)”	the Core Indicators for Risk Supervision of Commercial Banks (Provisional) (《商業銀行風險監管核心指標(試行)》) promulgated by the CBRC on December 31, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
“Corporate Governance Guidelines”	the Guidelines on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) promulgated by the CBRC on July 19, 2013 and effective on the same date, as amended, supplemented or otherwise modified from time to time
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
“Gansu Electric Power Investment”	Gansu Province Electric Power Investment Group Co., Ltd. (甘肅省電力投資集團有限責任公司), a company incorporated in the PRC on July 15, 1990, and a wholly-owned subsidiary of Gansu State-owned Assets Investment. As of the Latest Practicable Date, Gansu Electric Power Investment held approximately 6.30% of our Shares
“Gansu Highway Aviation Tourism”	Gansu Province Highway Aviation Tourism Investment Group Co., Ltd (甘肅省公路航空旅遊投資集團有限公司), a company incorporated in the PRC on December 24, 1999 and a wholly-owned subsidiary of the Department of Transportation of Gansu Province (甘肅省交通運輸廳). As of the Latest Practicable Date, Gansu Highway Aviation Tourism held approximately 11.49% of our Shares. It is a substantial Shareholder and connected person of the Bank

## Chapter 1 Definitions

“GDP”	gross domestic product
“GRC system”	Governance, Risk and Compliance Management system
“green finance”	economic activities supporting environmental improvements, climate change, conservation and high efficiency utilization of resources, including financial services for project investment, financing, operation and risk management in environmental protection, energy conservation, clean energy, green transportation and green architecture
“H Share(s)”	ordinary shares to be issued by the Bank in Hong Kong pursuant to the Global Offering, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed and traded on the Hong Kong Stock Exchange
“HK\$, “HKD” or “HK dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“HKMA”	the Hong Kong Monetary Authority
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, International Accounting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“independent third party”	a person or entity not considered a connected person or associate of a connected person of the Bank under the Hong Kong Listing Rules
“Gansu SASAC”	the State-owned Assets Supervision and Administration Commission of the Gansu Provincial Government (甘肅省人民政府國有資產監督管理委員會)
“Gansu State-owned Assets Investment”	Gansu Province State-owned Assets Investment Group Co., Ltd. (甘肅省國有資產投資集團有限公司), a company incorporated in the PRC on November 23, 2007, and 83.54% owned by Gansu SASAC and 16.46% by Jiuquan Iron & Steel. As of the Latest Practicable Date, it directly held approximately 3.57% of our Shares, and indirectly held approximately 12.59% of our Shares through its subsidiaries, including Gansu Electric Power Investment and Jinchuan Group. It is a substantial Shareholder and connected person of the Bank



## Chapter 1 Definitions

“Jinchuan Group”	Jinchuan Group Co., Ltd. (金川集團股份有限公司), a company incorporated in the PRC on September 28, 2001, of which Gansu State-owned Assets Investments is its largest shareholder, holding 48.67% of its equity interests. As of the Latest Practicable Date, Jinchuan Group held approximately 6.30% of our Shares
“Jingning Chengji Rural Bank”	Pingliang Jingning Chengji Rural Bank Co., Ltd., a joint stock company with limited liability incorporated in the PRC on September 18, 2008 and a subsidiary of the Bank
“Jiuquan Iron & Steel”	Jiuquan Iron & Steel (Group) Co., Ltd. (酒泉鋼鐵(集團)有限責任公司), a company incorporated in the PRC on May 26, 1998, and 68.09% owned by Gansu SASAC and 31.91% by Gansu State-owned Assets Investment. As of the Latest Practicable Date, Jiuquan Iron & Steel held approximately 6.30% of our Shares
“Latest Practicable Date”	April 23, 2018, the latest practicable date for ascertaining certain information in this annual report before its publication
“Listing”	the listing of our H Shares on the Hong Kong Stock Exchange
“Listing Date”	January 18, 2018, being the date on which dealing in the H Shares of the Bank first commences on the Hong Kong Stock Exchange
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (香港聯合交易所有限公司證券上市規則), as amended, supplemented or otherwise modified from time to time
“NAFMII”	the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
“non-standard credit assets”	credit assets that are not traded on the interbank markets or stock exchanges, which for the purpose of this annual report represents our investments in trust plans, asset management plans and wealth management products issued by other financial institutions
“NPL ratio” or “non-performing loan ratio”	the percentage ratio calculated by dividing non-performing loans by total loans
“NPLs” or “non-performing loans”	loans classified as substandard, doubtful and loss according to the five-category loan classification system of the Bank

## Chapter 1 Definitions

“PBoC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pingliang City Commercial Bank”	the former Pingliang City Commercial Bank Co., Ltd. (平涼市商業銀行股份有限公司). In May 2011, 25 legal entities, all the shareholders of Baiyin City Commercial Bank and all the shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“PRC” or “China”	the People’s Republic of China, but for the purpose of this annual report only, excluding Hong Kong, Macau and Taiwan, unless otherwise specified in the context
“PRC Banking Supervision and Regulatory Law”	the Banking Supervision and Regulatory Law of the PRC (《中華人民共和國銀行業監督管理法》), which was promulgated by the 6th meeting of the Standing Committee of the 10th National People’s Congress on December 27, 2003 and became effective on February 1, 2004, as amended, supplemented or otherwise modified from time to time
“PRC Commercial Banking Law”	the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》), which was promulgated by the 13th meeting of the Standing Committee of the 8th National People’s Congress on May 10, 1995 and became effective on July 1, 1995, as amended, supplemented or otherwise modified from time to time
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as amended and adopted by the Standing Committee of the 10th National People’s Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	the PRC Accounting Standards for Business Enterprises (中國企業會計準則) promulgated by MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
“PRC PBoC Law”	the Law of the People’s Bank of China of the PRC (《中華人民共和國中國人民銀行法》), as enacted by the 3rd meeting of the Standing Committee of the 8th National People’s Congress on March 18, 1995, became effective on the same date, as amended, supplemented or otherwise modified from time to time
“provincial city commercial bank(s)”	local city commercial bank(s), whose establishment was promoted by the provincial government

## Chapter 1 Definitions

“related party” or “related parties”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the CBRC, the PRC GAAP and/or IFRS
“related party transaction(s)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders promulgated by the CBRC, the PRC GAAP and/or IFRS
“Reporting Period”	the year ended December 31, 2017 (from January 1, 2017 to December 31, 2017)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
“SOE(s)”	state-owned enterprise(s)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Supervisor(s)”	the supervisor(s) of the Bank
“three rurals”	rural areas, agriculture and farmers
“U.N.”	United Nations
“United States” or “U.S.”	the United States of America
“US\$”, “USD” or “U.S. dollar(s)”	U.S. dollars, the lawful currency of the United States of America
“we”, “us”, “our”, “Group” or “our Group”	the Bank and its subsidiary on a consolidated basis

## Chapter 1 Definitions

In this annual report:

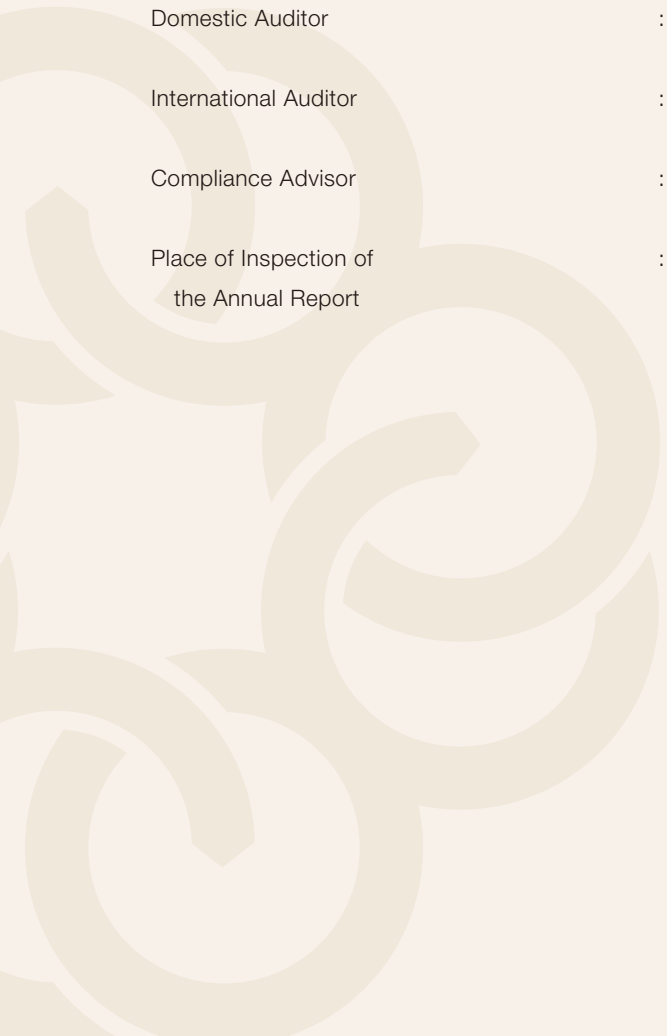
- *certain amounts and percentage figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*
- *unless the context otherwise requires, the terms “associate(s)”, “close associate(s)”, “connected person(s)”, “connected transaction(s)”, “core connected person(s)” and “substantial shareholder(s)” have the meanings given to such terms in the Hong Kong Listing Rules.*
- *for the ease of reference, in this annual report, unless otherwise indicated, the terms “gross loans and advances to customers”, “loans” and “grant of loans” are used synonymously.*
- *if there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.*

# Chapter 2 Company Profile

## I. BASIC INFORMATION OF THE COMPANY

Legal Name of the Company in Chinese	:	甘肅銀行股份有限公司
Legal Name of the Company in English	:	Bank of Gansu Co., Ltd.
Legal Representative	:	Li Xin
Authorized Representatives	:	Li Xin, Ko Nga Kit
Secretary to the Board of Directors	:	Xu Jianping
Joint Company Secretaries	:	Xu Jianping, Ko Nga Kit
Registered Address	:	No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province, the PRC
Principal Office Address	:	Gansu Bank Building, 525 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC
Customer Service Hotline	:	+86 400-86 96666
Telephone	:	+86 931 877 0491
Facsimile	:	+86 931 877 1877
Company Website	:	<a href="http://www.gsbankchina.com">www.gsbankchina.com</a>
Principal Place of Business in Hong Kong	:	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
H Share Information Disclosure Website	:	<a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
Stock Listing Place, Stock Short Name and Stock Code	:	The Stock Exchange of Hong Kong Limited, BANK OF GANSU, 2139
H Share Registrar	:	Computershare Hong Kong Investor Services Limited

## Chapter 2 Company Profile



PRC Legal Adviser	:	Grandall Law Firm (Shanghai)
Hong Kong Legal Adviser	:	Latham & Watkins
Domestic Auditor	:	Shinewing Certified Public Accountants LLP
International Auditor	:	SHINEWING (HK) CPA Limited
Compliance Advisor	:	Guotai Junan Capital Limited
Place of Inspection of the Annual Report	:	Office of the Board of the Bank

### II. HISTORY OF THE BANK

In light of the lack of provincial city commercial banks in Gansu province and to promote the economic development of Gansu province, the People's Government of Gansu Province decided to establish a provincial city commercial bank by building on the foundations of Baiyin City Commercial Bank and Pingliang City Commercial Bank. Therefore, on May 30, 2011, 25 legal entities (including large and medium-sized SOEs in Gansu province and private enterprises in and outside Gansu province) and representatives of all the shareholders of Baiyin City Commercial Bank and Pingliang City Commercial Bank jointly entered into a promoters agreement in respect of Dunhuang Bank Co., Ltd. (敦煌銀行股份有限公司). Pursuant to the agreement, the 25 legal entities contributed cash and all the shareholders of Baiyin City Commercial Bank and Pingliang City Commercial Bank contributed the appraised net assets of Baiyin City Commercial Bank and Pingliang City Commercial Bank, respectively, to incorporate Dunhuang Bank Co., Ltd. On August 24, 2011, the General Office of the People's Government of Gansu Province approved the change to the name of the Bank to be incorporated from the former "Dunhuang Bank Co., Ltd." to "Bank of Gansu Co., Ltd.". On September 27, 2011, the CBRC approved the establishment of the Bank. On November 18, 2011, the CBRC Gansu Office approved the commencement of business of the Bank and the conversion of Baiyin City Commercial Bank, Pingliang City Commercial Bank and their branches and sub-branches into Baiyin Branch, Pingliang Branch and its sub-branches. On the same day, the Bank was granted the enterprise business license by the Administration for Industry and Commerce of Gansu Province and was formally incorporated under the PRC Company Law. The Bank is the only provincial city commercial bank in Gansu province.

The registered address of the Bank is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu province, the PRC. The Bank has established a principal place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and was registered as a non-Hong Kong company on June 28, 2017 under Part XVI of the Companies Ordinance. The Bank appointed Ms. Ko Nga Kit as the Bank's authorized representative for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Bank in Hong Kong is the same as the Bank's principal place of business in Hong Kong.

As the Bank was established in the PRC, the Bank's corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. The Bank carries on banking business in the PRC under the supervision and regulation of the CBRC and the PBoC. The Bank is not an authorized institution within the meaning of the Banking Ordinance, and is not subject to the supervision of the HKMA, nor authorized to carry on banking and/or deposit-taking business in Hong Kong.

The Bank's H Shares were listed on the Main Board of the Hong Kong Stock Exchange on January 18, 2018.

## Chapter 2 Company Profile

### III. AWARDS OF THE BANK IN 2017

Awards and Honors	Awarding Party/Media
2017 Excellent Data Center Award in China (2017年度中國優秀數據中心獎)	Data Center of China Computer Users Association
2017 Excellent Project Management Team Award by China Data Center (2017年度中國數據中心優秀項目管理團隊獎)	Data Center of China Computer Users Association
Excellent Women Award in Gansu Province (甘肅省五一巾幗獎)	Department of Human Resources and Social Security of Gansu Province and Gansu Federation of Trade Unions
Grade A Bank in Anti-Money Laundering Assessment (全省反洗錢考核A類行)	Lanzhou Central Sub-branch of the PBoC
2017 “Excellent Communications and Liaison Unit” (2017年度「通聯工作先進單位」)	Gansu Finance Society
2017 Provincial Excellent Team Award in Primary Level Theory Explanation (2017年度全省基層理論宣講工作先進集體獎)	Gansu Provincial Party Committee Propaganda Department and Lecturer Corps of Gansu Provincial Party Committee (甘肅省委講師團)
Best Progress Award by National Interbank Funding Center (全國銀行間同業拆借中心最佳進步獎)	National Interbank Funding Center
Outstanding Contribution Award for Financial Technology Innovation – Progress and Innovation Contribution Award (金融科技創新突出貢獻獎—運維創新貢獻獎)	China Fintech Company (中國金融科技公司)
2017 Banking Industry Information Technology Risk Management Issue Research Award, Class III (2017年度銀行業信息科技風險管理研究三類成果獎)	High-Level Guiding Committee of Information Technology Risk of Banking Industry (銀行業信息科技風險高層指導委員會)
2017 Innovative Application Award for Direct Banking (2017直銷銀行創新應用獎)	China Financial Certification Authority (CFCA)



## Chapter 2 Company Profile

Awards and Honors	Awarding Party/Media
2016 Top 10 City Commercial Banks (2016年度十佳城商銀行)	Financial News, China Academy of Regional Finance and Nationwide Regional Financial Forum Office (全國地方金融論壇辦公室)
2016 Banking Technology Development Award, Class III by the PBoC (中國人民銀行2016年度銀行科技發展獎三等獎)	The PBoC
2017 Awarded Articles in the Northwest Financial Forum — An Excellent Example of Green Finance (2017年西北金融論壇有獎徵文 — 綠色金融優秀案例)	Gansu Daily, Lanzhou University of Finance and Economics and Gansu Finance Society
Excellent Organization Award for Articles Soliciting Activity of “A Letter Home” (「一封家書」徵文活動優秀組織獎)	Gansu Federation of Trade Unions
Network Security Knowledge Contest Award, Class II among Gansu Banking Financial Institutions (“甘肅省銀行業金融機構網絡安全知識競賽”二等獎)	Gansu Provincial Party Committee Cyberspace Administration (甘肅省委網信辦) and Lanzhou Central Sub-branch of the PBoC
2016 Provincial Governor Financial Award (2016年度省長金融獎)	Gansu Provincial People’s Government
Best 10 Targeted Poverty Alleviation Banks (十佳精準扶貧銀行)	Organizing Committee of China New Financial Institution Forum (中國新型金融機構論壇組委會) and Financial Times
2017 Excellent CCDC Member — Excellent Proprietary Institution Award (2017年度中債優秀成員 — 優秀自營機構獎)	China Central Depository & Clearing Co., Ltd.
2017 Excellent CCDC Member — Excellent Issuing Institution Award (2017年度中債優秀成員 — 優秀發行機構獎)	China Central Depository & Clearing Co., Ltd.

# Chapter 3 Financial Highlights

## Financial Data from 2014 to 2017

(Expressed in millions of RMB, unless otherwise stated)	2017	2016	2015	2014
<b>Results of operations</b>				
Interest income	14,045.8	12,063.0	11,129.0	7,992.7
Interest expense	(6,560.8)	(5,392.8)	(5,995.0)	(4,559.7)
<b>Net interest income</b>	<b>7,485.0</b>	<b>6,670.2</b>	<b>5,134.0</b>	<b>3,433.0</b>
Fee and commission income	462.8	327.4	198.7	166.0
Fee and commission expenses	(86.1)	(71.1)	(57.3)	(27.4)
<b>Net fee and commission income</b>	<b>376.7</b>	<b>256.3</b>	<b>141.4</b>	<b>138.6</b>
Net trading losses	(21.9)	(8.0)	(6.1)	—
Net gains/(losses) arising from investment securities	116.9	—	(1.0)	—
Net exchange (losses)/gains	(13.2)	9.9	6.3	(1.2)
Other operating income	109.0	42.5	28.2	32.0
<b>Operating income</b>	<b>8,052.5</b>	<b>6,970.9</b>	<b>5,302.8</b>	<b>3,602.4</b>
Operating expenses	(2,052.2)	(1,903.8)	(1,830.0)	(1,258.6)
Impairment losses on assets	(1,523.0)	(2,504.4)	(1,720.5)	(938.0)
<b>Operating profit</b>	<b>4,477.3</b>	<b>2,562.7</b>	<b>1,752.3</b>	<b>1,405.8</b>
Share of profits of associates	1.8	1.9	1.4	2.8
<b>Profit before tax</b>	<b>4,479.1</b>	<b>2,564.6</b>	<b>1,753.7</b>	<b>1,408.6</b>
Income tax expense	(1,115.4)	(643.6)	(455.3)	(346.0)
<b>Profit for the year</b>	<b>3,363.7</b>	<b>1,921.0</b>	<b>1,298.4</b>	<b>1,062.6</b>
<b>Profit for the year attributable to:</b>				
— Owners of the Bank	3,358.5	1,917.0	1,295.4	1,060.0
— Non-controlling interests	5.2	4.0	3.0	2.6
<b>Profit for the year</b>	<b>3,363.7</b>	<b>1,921.0</b>	<b>1,298.4</b>	<b>1,062.6</b>

## Chapter 3 Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	2017	2016	2015	2014
<b>Major indicators of assets/liabilities</b>				
Total assets	<b>271,147.6</b>	245,056.4	211,930.7	165,100.1
Of which: total loans and advances to customers	<b>130,283.6</b>	107,855.1	90,626.7	56,495.5
Total liabilities	<b>254,534.6</b>	231,712.7	199,836.0	154,350.2
Of which: deposits from customers	<b>192,230.6</b>	171,165.3	141,020.6	110,541.6
Total equity	<b>16,613.0</b>	13,343.7	12,094.7	10,749.9
<b>Per share (RMB)</b>				
Net assets per share	<b>2.21</b>	1.77	1.61	1.51
Basic earnings per share	<b>0.45</b>	0.25	0.17	0.19
Diluted earnings per share	<b>0.45</b>	0.25	0.17	0.19
<b>Profitability indicators (%)</b>				
Return on assets <sup>(1)</sup>	<b>1.30%</b>	0.84%	0.69%	0.87%
Return on equity <sup>(2)</sup>	<b>22.46%</b>	15.10%	11.37%	12.16%
Net interest spread <sup>(3)</sup>	<b>2.74%</b>	2.89%	2.79%	2.56%
Net interest margin <sup>(4)</sup>	<b>2.91%</b>	3.08%	2.96%	2.85%
Net fee and commission income to operating income ratio <sup>(5)</sup>	<b>4.68%</b>	3.68%	2.67%	3.85%
Cost-to-income ratio <sup>(6)</sup>	<b>24.81%</b>	25.16%	28.72%	29.56%
<b>Capital adequacy indicators (%)</b>				
Core tier-one capital adequacy ratio <sup>(7)</sup>	<b>8.71%</b>	8.58%	8.57%	9.85%
Tier-one capital adequacy ratio <sup>(8)</sup>	<b>8.71%</b>	8.58%	8.57%	9.85%
Capital adequacy ratio <sup>(9)</sup>	<b>11.54%</b>	11.80%	11.42%	10.55%
Shareholders' equity to total assets ratio	<b>6.13%</b>	5.45%	5.71%	6.51%
<b>Assets quality indicators (%)</b>				
Non-performing loan ratio	<b>1.74%</b>	1.81%	1.77%	0.39%
Provision coverage ratio <sup>(10)</sup>	<b>222.00%</b>	192.72%	150.94%	448.83%
Provision to total loan ratio <sup>(11)(12)</sup>	<b>3.86%</b>	3.48%	2.67%	1.73%
<b>Other indicators (%)</b>				
Loan to deposit ratio <sup>(13)</sup>	<b>67.77%</b>	63.01%	64.26%	51.11%

## Chapter 3 Financial Highlights

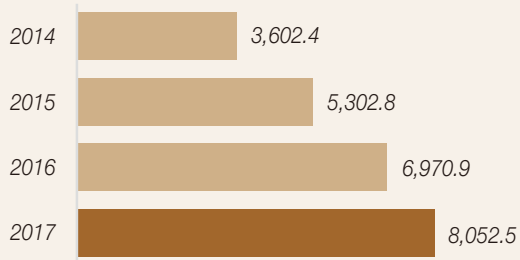
### Notes:

- (1) Calculated by dividing the net profit for a year by the average balance of total assets at the beginning and the end of that year.
- (2) Calculated by dividing the net profit for a year by the average balance of total equity at the beginning and the end of that year.
- (3) Represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average interest-earning assets.
- (5) Calculated by dividing net fee and commission income by operating income.
- (6) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.
- (7) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions) / risk-weighted assets.
- (8) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions) / risk-weighted assets.
- (9) Capital adequacy ratio = (total capital – corresponding capital deductions) / risk-weighted assets.
- (10) Provision coverage ratio = provision for impairment losses on loans / total non-performing loans and advances.
- (11) Provision to total loan ratio = provision for impairment losses on loans / total loans and advances to customers.
- (12) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank is required to maintain a minimum provision to total loan ratio of 2.5% by December 31, 2017.
- (13) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.

## Chapter 3 Financial Highlights

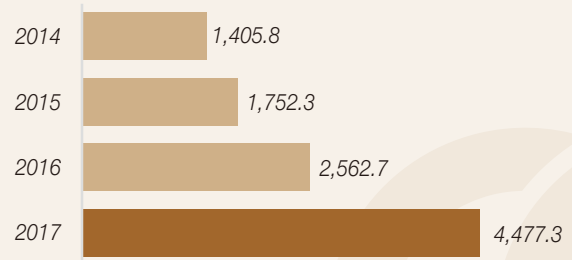
### Operating income

Unit: RMB in millions



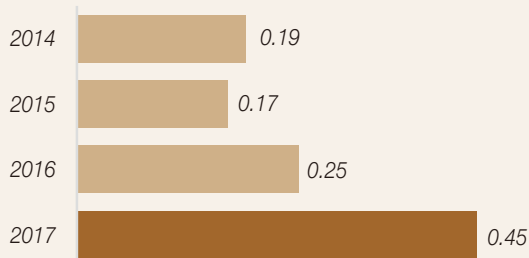
### Operating profit

Unit: RMB in millions



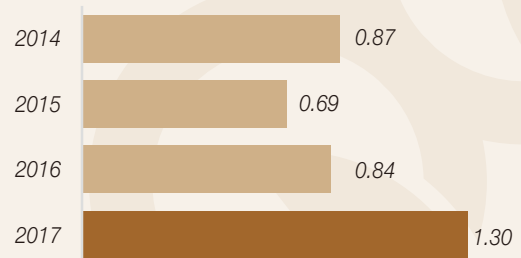
### Basic earnings per share

Unit: RMB



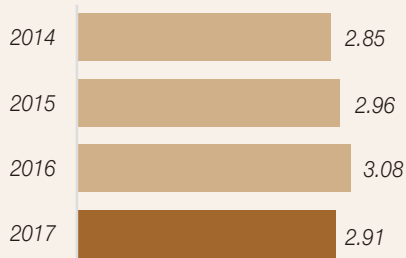
### Return on assets

Unit: %



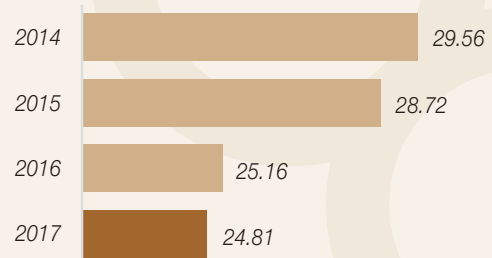
### Net interest margin

Unit: %



### Cost-to-income ratio

Unit: %



## Chapter 3 Financial Highlights

### Financial Data for 2013<sup>(1)</sup>

(Expressed in millions of RMB, unless otherwise stated)		2013
<b>Results of operations</b>		
Interest income		2,936.4
Interest expense		(1,190.9)
<b>Net interest income</b>		1,745.5
Fee and commission income		37.5
Fee and commission expenses		(2.5)
<b>Net fee and commission income</b>		35.0
Other operating income		4.5
<b>Operating income</b>		1,785.0
Operating expenses		(685.4)
Impairment losses on assets		(347.2)
<b>Operating profit</b>		752.4
Share of profits of associates		0.1
<b>Profit before tax</b>		752.5
Income tax expense		(194.2)
<b>Profit for the year</b>		558.3
<b>Profit for the year attributable to:</b>		
— Owners of the Bank		555.2
— Non-controlling interests		3.1
<b>Profit for the year</b>		558.3

## Chapter 3 Financial Highlights

(Expressed in millions of RMB,  
unless otherwise stated)

2013

### Main indicators of assets/liabilities

Total assets	79,735.5
Of which: total loans and advances to customers	30,031.4
Total liabilities	73,089.7
Of which: deposits from customers	55,874.2
Total equity	6,645.8

### Per share (RMB)

Net assets per share	1.35
Basic earnings per share	0.11
Diluted earnings per share	0.11

### Profitability indicators (%)

Return on assets <sup>(2)</sup>	1.03%
Return on equity <sup>(3)</sup>	10.23%
Net fee and commission income to operating income ratio <sup>(4)</sup>	1.96%
Cost-to-income ratio <sup>(5)</sup>	32.89%

### Capital adequacy indicators (%)

Core tier-one capital adequacy ratio <sup>(6)</sup>	12.72%
Tier-one capital adequacy ratio <sup>(7)</sup>	12.72%
Capital adequacy ratio <sup>(8)</sup>	13.64%
Shareholders' equity to total assets ratio	8.33%

### Assets quality indicators (%)

Non-performing loan ratio	0.27%
Provision coverage ratio <sup>(9)</sup>	505.14%
Provision to total loan ratio <sup>(10)(11)</sup>	1.37%

### Other indicators (%)

Loan to deposit ratio <sup>(12)</sup>	53.75%
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## Chapter 3 Financial Highlights

### Notes:

- (1) The financial data for 2013 has been prepared in accordance with the PRC Accounting Standards for Business Enterprises.
- (2) Calculated by dividing the net profit for a year by the average balance of total assets at the beginning and the end of that year.
- (3) Calculated by dividing the net profit for a year by the average balance of total equity at the beginning and the end of that year.
- (4) Calculated by dividing net fee and commission income by operating income.
- (5) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.
- (6) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions) / risk-weighted assets.
- (7) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions) / risk-weighted assets.
- (8) Capital adequacy ratio = (total capital – corresponding capital deductions) / risk-weighted assets.
- (9) Provision coverage ratio = provision for impairment losses on loans / total non-performing loans and advances.
- (10) Provision to total loan ratio = provision for impairment losses on loans / total loans and advances to customers.
- (11) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank is required to maintain a minimum provision to total loan ratio of 2.5% by December 31, 2017.
- (12) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.



# Chapter 4 Management Discussion and Analysis

## ENVIRONMENT AND PROSPECT

In 2017, the global economy recovered sharply. Thanks to the proactive fiscal policies, sound monetary policies, and supply-side structural reforms, China's economy maintained operating within a reasonable range, and achieved steady growth and favorable development. China's gross domestic product (GDP) reached RMB82.7 trillion, representing an increase of 6.9% year-on-year, rebounding for the first time since economic growth slowdown in 2011.

Gansu Province, where the Bank mainly operates, is benefitted from the promotion of targeted poverty alleviation, "conducting of key projects, development of key industries, and implementation of key policies", "different policies for varied industries, enterprises and situations" and the cultivation of new kinetic energy. In 2017, the economic operation was basically steady, and the quality benefits continued to improve. The GDP of the province reached RMB767.70 billion, representing an increase of 3.6% as compared to the previous year. The growth of residents' income was faster than that of economic growth. The disposable income of urban residents and the disposable income of rural residents increased by 8.1% and 8.3% year-on-year, respectively. Consumption made greater contributions to economic growth, and the total retail sales of social consumer goods in the province increased by 7.6% as compared to the previous year.

In 2018, the global economy will continue to recover, with brighter prospects but numerous challenges, and there are uncertainties in many aspects. China's economy has entered a period of high-quality development from high-speed growth, and it is currently in the key period of transforming the mode of development, optimizing the economic structure, and transforming the growth momentum. Under the continued promotion of structural reform on the supply side, innovation-driven development strategy, implementation of the strategy for rural revitalization, and the three major challenges, the situation of steady growth, improvement of supply system quality, and optimization of economic structure will continue to be maintained. The continuity and coordination of development will continue to increase. Judging from the development of Gansu Province, 2018 is a critical year for making up shortfalls and expanding the total volume while improving quality.

In 2018, the Bank will fully grasp and take advantage of the opportunities brought by local economic development, steadily expand the scale of assets during the enhancement of efficiency, maintain the stability of asset quality, further promote business transformation and integrated operations, improve capital management, and increase the application of financial technology to improve basic management capabilities.

## Chapter 4 Management Discussion and Analysis

### DEVELOPMENT STRATEGY

2018 is the first year after the Bank's listing on The Stock Exchange of Hong Kong Limited. The Bank's strategic vision is to become a top comprehensive financial group that integrates modern city commercial banks, consumer finance and financial leasing in Western China. In order to achieve the goals, the Bank plans to: (1) implement integrated operations and continuously improve its financial service capabilities; (2) promote the development of distinctive features and enhance the competitiveness of "agriculture, rural areas and farmers" and small and micro business; (3) focus on the advanced technologies of finance, continuously improve financial technology innovation capabilities; (4) strengthen meticulous management and continuously enhance the execution capabilities of compliance operation; and (5) insist on the talent orientation and continuously enhance the cohesion of employees.

### OVERALL BUSINESS REVIEW

The Bank recorded a total operating income of RMB8,052.5 million in 2017, representing an increase of 15.5% as compared to RMB6,970.9 million in 2016. The Bank's net profit increased by 75.1% from RMB1,921.0 million in 2016 to RMB3,363.7 million in 2017. The Bank's performance not only delivered sound returns to the Shareholders and investors, but also laid a solid foundation for its sustainable development.

As at December 31, 2017, the Bank's total assets amounted to RMB271,147.6 million, representing a year-on-year increase of 10.6%; total loans and advances to customers amounted to RMB130,283.6 million, representing a year-on-year increase of 20.8%; the non-performing loan ratio remained at a reasonable level of 1.74%; total deposits from customers amounted to RMB192,230.6 million, representing a year-on-year increase of 12.3%.

## Chapter 4 Management Discussion and Analysis

### (a) Analysis of the Consolidated Statements of Profit or Loss

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	2016	Increase or decrease	Percentage change (%)
Interest income	14,045.8	12,063.0	1,982.8	16.4%
Interest expense	(6,560.8)	(5,392.8)	(1,168.0)	21.7%
<b>Net interest income</b>	<b>7,485.0</b>	<b>6,670.2</b>	<b>814.8</b>	<b>12.2%</b>
Fee and commission income	462.8	327.4	135.4	41.4%
Fee and commission expenses	(86.1)	(71.1)	(15.0)	21.1%
<b>Net fee and commission income</b>	<b>376.7</b>	<b>256.3</b>	<b>120.4</b>	<b>47.0%</b>
Net trading losses	(21.9)	(8.0)	(13.9)	173.8%
Net gains/(losses) arising from investment securities	116.9	—	116.9	—
Net exchange (losses)/gains	(13.2)	9.9	(23.1)	(233.3)%
Other operating income	109.0	42.5	66.5	156.5%
<b>Operating income</b>	<b>8,052.5</b>	<b>6,970.9</b>	<b>1,081.6</b>	<b>15.5%</b>
Operating expenses	(2,052.2)	(1,903.8)	(148.4)	7.8%
Impairment losses on assets	(1,523.0)	(2,504.4)	981.4	(39.2)%
<b>Operating profit</b>	<b>4,477.3</b>	<b>2,562.7</b>	<b>1,914.6</b>	<b>74.7%</b>
Share of Profits of associates	1.8	1.9	(0.1)	(5.3)%
<b>Profit before tax</b>	<b>4,479.1</b>	<b>2,564.6</b>	<b>1,914.5</b>	<b>74.7%</b>
Income tax expense	(1,115.4)	(643.6)	(471.8)	73.3%
<b>Profit for the year</b>	<b>3,363.7</b>	<b>1,921.0</b>	<b>1,442.7</b>	<b>75.1%</b>
<b>Profit for the year attributable to:</b>				
— Owners of the Bank	3,358.5	1,917.0	1,441.5	75.2%
— Non-controlling interests	5.2	4.0	1.2	30.0%
<b>Profit for the year</b>	<b>3,363.7</b>	<b>1,921.0</b>	<b>1,442.7</b>	<b>75.1%</b>

In 2017, the Bank's profit before tax was RMB4,479.1 million, representing a year-on-year increase of 74.7%; profit for the year was RMB3,363.7 million, representing a year-on-year increase of 75.1%, mainly attributable to the stable growth of total interest-earning assets resulting in increase in net interest income of RMB814.8 million or 12.2% as compared to the previous year.

## Chapter 4 Management Discussion and Analysis

### (i) Net interest income

The net interest income was the largest component of the Bank's operating revenue, accounting for 95.7% and 93.0% of the operating income in 2016 and 2017 respectively. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	2016	Increase or decrease	Percentage change (%)
Interest income	<b>14,045.8</b>	12,063.0	1,982.8	16.4%
Interest expense	<b>(6,560.8)</b>	(5,392.8)	(1,168.0)	21.7%
<b>Net interest income</b>	<b>7,485.0</b>	6,670.2	814.8	12.2%

The table below sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expenses and the average yield of related assets or average cost of related liabilities of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017			Year ended December 31, 2016		
	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup> (%)	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup> (%)
<b>Interest-earning assets</b>						
Loans and advances to customers	<b>116,311.5</b>	<b>7,744.8</b>	<b>6.66%</b>	99,242.8	6,575.9	6.63%
Investment securities and other financial assets <sup>(3)</sup>	<b>82,720.9</b>	<b>4,687.8</b>	<b>5.67%</b>	75,528.1	4,669.2	6.18%
Deposits with banks	<b>26,615.8</b>	<b>974.5</b>	<b>3.66%</b>	18,758.3	453.3	2.42%
Financial assets held under resale agreements and placements with banks and other financial institutions	<b>6,692.5</b>	<b>251.3</b>	<b>3.75%</b>	820.6	22.0	2.68%
Deposits with the central bank <sup>(4)</sup>	<b>24,974.1</b>	<b>387.4</b>	<b>1.55%</b>	22,112.7	342.6	1.55%
<b>Total interest-earning assets</b>	<b>257,314.8</b>	<b>14,045.8</b>	<b>5.46%</b>	216,462.5	12,063.0	5.57%

## Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017			Year ended December 31, 2016		
	Average balance <sup>(1)</sup>	Interest expense	Average cost <sup>(2)</sup> (%)	Average balance <sup>(1)</sup>	Interest expense	Average cost <sup>(2)</sup> (%)
<b>Interest-bearing liabilities</b>						
Deposits from customers	177,607.9	3,532.7	1.99%	142,794.6	2,888.1	2.02%
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	7,899.0	239.1	3.03%	4,051.4	93.6	2.31%
Debt securities issued <sup>(5)</sup>	20,126.6	946.0	4.70%	12,331.4	445.8	3.62%
Deposits from banks and other financial institutions	31,807.2	1,712.5	5.38%	37,089.3	1,817.9	4.90%
Borrowings from the central bank	3,939.4	130.5	3.31%	4,695.2	147.4	3.14%
<b>Total interest-bearing liabilities</b>	<b>241,380.1</b>	<b>6,560.8</b>	<b>2.72%</b>	<b>200,961.9</b>	<b>5,392.8</b>	<b>2.68%</b>
<b>Net interest income</b>		<b>7,485.0</b>			<b>6,670.2</b>	
<b>Net interest spread<sup>(6)</sup></b>			<b>2.74%</b>			<b>2.89%</b>
<b>Net interest margin<sup>(7)</sup></b>			<b>2.91%</b>			<b>3.08%</b>

Notes:

- (1) The daily average balances of interest-earning assets and interest-bearing liabilities are derived from our unaudited management accounts.
- (2) Calculated by dividing interest income/expense by average balance.
- (3) Primarily includes debt securities classified as receivables, available-for-sale financial assets, held-to-maturity investments, and financial assets at fair value through profit or loss.
- (4) Primarily includes statutory deposit reserves, surplus deposit reserves and fiscal deposits reserves.
- (5) Primarily includes interbank certificates and tier-two capital bonds.
- (6) Represents the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.
- (7) Calculated by dividing net interest income by the daily average balance of interest-earning assets.

## Chapter 4 Management Discussion and Analysis

The table below sets forth the changes in interest income and interest expense attributable to changes in amount and interest rate for the periods indicated. Changes in amount are measured by changes in average balances, and changes in rate are measured by changes in average interest rates. Changes caused by both amount and interest rate have been allocated to changes in amount.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017 vs 2016		
	Increase/(decrease) due to		Net increase/ (decrease) <sup>(3)</sup>
	Amount <sup>(1)</sup>	Rate <sup>(2)</sup>	
<b>Interest-earning assets</b>			
Loans and advances to customers	1,136.5	32.4	1,168.9
Investment securities and other financial assets	407.6	(389.0)	18.6
Deposits with banks	287.7	233.5	521.2
Financial assets held under resale agreements and placements with banks and other financial institutions	220.5	8.8	229.3
Deposits with the central bank	44.4	0.4	44.8
<b>Change in interest income</b>	<b>2,096.7</b>	<b>(113.9)</b>	<b>1,982.8</b>
<b>Interest-bearing liabilities</b>			
Deposits from customers	692.5	(47.9)	644.6
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	116.5	29.0	145.5
Debt securities issued	366.4	133.8	500.2
Deposits from banks and other financial institutions	(284.4)	179.0	(105.4)
Borrowings from the central bank	(25.0)	8.1	(16.9)
<b>Change in interest expense</b>	<b>866.0</b>	<b>302.0</b>	<b>1,168.0</b>
<b>Change in net interest income</b>	<b>1,230.7</b>	<b>(415.9)</b>	<b>814.8</b>

Notes:

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

## Chapter 4 Management Discussion and Analysis

### (ii) Interest income

The table below sets forth the principal components of interest income of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017		2016	
	Amount	% of total	Amount	% of total
Loans and advances to customers	7,744.8	55.1%	6,575.9	54.5%
Investment securities and other financial assets	4,687.8	33.4%	4,669.2	38.7%
Deposits with banks	974.5	6.9%	453.3	3.8%
Financial assets held under resale agreements and placements with banks and other financial institutions	251.3	1.8%	22.0	0.2%
Deposits with the central bank	387.4	2.8%	342.6	2.8%
<b>Total</b>	<b>14,045.8</b>	<b>100.0%</b>	<b>12,063.0</b>	<b>100.0%</b>

Interest income increased by 16.4% from RMB12,063.0 million in 2016 to RMB14,045.8 million in 2017, primarily due to a 18.9% increase in the average balance of interest-earning assets, from RMB216,462.5 million in 2016 to RMB257,314.8 million in 2017, partially offset by a decrease in the average yield of interest-earning assets from 5.57% in 2016 to 5.46% in 2017. The increase in the average balance of interest-earning assets was in line with the growth of our business. The decrease in the average yield of interest-earning assets was primarily due to (i) a decrease in the average yield of loans and advances to customers, primarily due to increased market competition reflecting increased interest rate liberalization, and (ii) a decrease in the average yield of investment securities and other financial assets, primarily due to lower returns on our investments in non-standard credit assets, as well as our increased investments in debt securities with high liquidity and lower yields.

## Chapter 4 Management Discussion and Analysis

### (A) Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 54.5% and 55.1% of total interest income in 2016 and 2017, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,					
	2017			2016		
	Average balance <sup>(1)</sup>	Interest income	Average yield (%)	Average balance <sup>(1)</sup>	Interest income	Average yield (%)
Corporate loans	88,204.1	5,918.5	6.71%	79,086.4	5,608.4	7.09%
Retail loans	10,223.8	945.1	9.24%	6,339.9	460.6	7.27%
Discounted bills	17,883.6	881.2	4.93%	13,816.5	506.9	3.67%
<b>Total loans and advances to customers</b>	<b>116,311.5</b>	<b>7,744.8</b>	<b>6.66%</b>	<b>99,242.8</b>	<b>6,575.9</b>	<b>6.63%</b>

Note:

(1) Represents the average of daily balances based on our unaudited management accounts.

### (B) Interest income from investment securities and other financial assets

Interest income from investment securities and other financial assets increased by 0.4% from RMB4,669.2 million in 2016 to RMB4,687.8 million in 2017, primarily due to a 9.5% increase in the average balance of investment securities and other financial assets, from RMB75,528.1 million in 2016 to RMB82,720.9 million in 2017, partially offset by a decrease in the average yield of investment securities and other financial assets, from 6.18% in 2016 to 5.67% in 2017. The increase in average balance was primarily due to our increased investments in financial assets to diversify our asset portfolio. The decrease in average yield was primarily due to (i) lower returns on our investments in non-standard credit assets, and (ii) our increased investments in debt securities with high liquidity and lower yields.

### (C) Interest income from deposits with banks

Interest income from deposits with banks increased by 115.0% from RMB453.3 million in 2016 to RMB974.5 million in 2017, primarily due to a 41.9% increase in the average balance of deposits with banks, from RMB18,758.3 million in 2016 to RMB26,615.8 million in 2017, and an increase in the average yield of deposits with banks, from 2.42% in 2016 to 3.66% in 2017. The increase in average balance was due to our increased investments in deposits with banks based on changes in interbank money market interest rates to manage our liquidity. The increase in average yield was primarily due to higher market interest rates reflecting tightened market liquidity, which in turn resulted in an increase in returns from deposits with other banks.



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### (D) Interest income from financial assets held under resale agreements and placements with Banks and other financial institutions

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 1,042.3% from RMB22.0 million in 2016 to RMB251.3 million in 2017, primarily due to a 715.6% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB820.6 million in 2016 to RMB6,692.5 million in 2017, and an increase in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 2.68% in 2016 to 3.75% in 2017. The increase in average balance was primarily because we entered into more reverse repurchase transactions to manage liquidity and earn returns. The increase in average yield was primarily due to higher market interest rates reflecting tightened market liquidity, which in turn resulted in an increase in returns from reverse repurchase transactions.

### (E) Interest income from deposits with the central bank

Interest income from deposits with the central bank increased by 13.1% from RMB342.6 million in 2016 to RMB387.4 million in 2017, primarily due to a 12.9% increase in the average balance of deposits with the central bank, from RMB22,112.7 million in 2016 to RMB24,974.1 million in 2017. The increase in average balance was primarily due to increased statutory deposit reserves resulting from the continued growth in deposits from customers.

### (iii) Interest expense

The table below sets forth the principal components of interest expense of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	% of	2016	% of
	Amount	total	Amount	total
Deposits from customers	3,532.7	53.9%	2,888.1	53.6%
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	239.1	3.6%	93.6	1.7%
Debt securities issued	946.0	14.4%	445.8	8.3%
Deposits from banks and other financial institutions	1,712.5	26.1%	1,817.9	33.7%
Borrowings from the central bank	130.5	2.0%	147.4	2.7%
<b>Total</b>	<b>6,560.8</b>	<b>100.0%</b>	<b>5,392.8</b>	<b>100.0%</b>

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Interest expense increased by 21.7% from RMB5,392.8 million in 2016 to RMB6,560.8 million in 2017, primarily due to a 20.1% increase in the average balance of interest-bearing liabilities, from RMB200,961.9 million in 2016 to RMB241,380.1 million in 2017, partially offset by an increase in the average cost of interest-bearing liabilities, from 2.68% in 2016 to 2.72% in 2017. The increase in the average balance of interest-bearing liabilities was primarily due to the increases in customer deposits and repurchase transactions and our issuance of debt securities. The increase in the average cost of interest-bearing liabilities was primarily due to higher market interest rates.

### **(A) Interest expense on deposits from customers**

Interest expense on deposits from customers increased by 22.3% from RMB2,888.1 million in 2016 to RMB3,532.7 million in 2017, primarily due to a 24.4% increase in the average balance of deposits from customers, from RMB142,794.6 million in 2016 to RMB177,607.9 million in 2017, partially offset by a decrease in the average cost of deposits from customers, from 2.02% in 2016 to 1.99% in 2017. The decrease in the average cost of deposits from customers was primarily due to lower interest rates offered for our deposit products rolled over at maturity resulting from reductions in PBoC benchmark interest rates in 2014 and 2015.

### **(B) Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions**

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 155.4% from RMB93.6 million in 2016 to RMB239.1 million in 2017, primarily due to a 95.0% increase in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB4,051.4 million in 2016 to RMB7,899.0 million in 2017, and an increase in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 2.31% in 2016 to 3.03% in 2017. The increase in average balance was primarily because we entered into more repurchase transactions to diversify our financing channels. The increase in average cost was primarily due to higher market interest rates reflecting tightened market liquidity, which in turn led to an increase in the cost of repurchase transactions.

### **(C) Interest expense on debt securities issued**

Interest expense on debt securities issued increased by 112.2% from RMB445.8 million in 2016 to RMB946.0 million in 2017, primarily due to a 63.2% increase in the average balance of debt securities issued, from RMB12,331.4 million in 2016 to RMB20,126.6 million in 2017 and an increase in the average cost of debt securities issued, from 3.62% in 2016 to 4.70% in 2017. The increase in average balance was primarily due to our issuance of financial bonds in an aggregate principal amount of RMB4,500.0 million and interbank certificates in an aggregate principal amount of RMB44,980.0 million. The increase in average cost was primarily due to our issuance of mid- and long-term financial bonds which had relatively higher interest rates, and an increase in the interest rates of interbank certificates reflecting higher market interest rates.

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### ***(D) Interest expense on deposits from banks and other financial institutions***

Interest expense on deposits from banks and other financial institutions decreased by 5.8% from RMB1,817.9 million in 2016 to RMB1,712.5 million in 2017, primarily due to a 14.2% decrease in the average balance of deposits from banks and other financial institutions, from RMB37,089.3 million in 2016 to RMB31,807.2 million in 2017, primarily because we reduced fund raising through deposits from banks and other financial institutions as a result of increased deposits from customers and our issuance of interbank certificates and financial bonds. In 2016 and 2017, the market interest rates increased, liquidity tightened, and the average cost of deposits from banks and other financial institutions increased from 4.9% to 5.38%.

### ***(E) Interest expense on borrowings from the central bank***

Interest expense on borrowings from the central bank decreased by 11.5% from RMB147.4 million in 2016 to RMB130.5 million in 2017, primarily due to a 16.1% decrease in the average balance of borrowings from the central bank, from RMB4,695.2 million in 2016 to RMB3,939.4 million in 2017, primarily due to decrease in business. The average cost of borrowings from the central bank remained relatively stable at 3.14% and 3.31% in 2016 and 2017, respectively.

### ***(iv) Net interest spread and net interest margin***

Net interest spread decreased from 2.89% in 2016 to 2.74% in 2017, primarily due to a decrease in average yield of total interest-earning assets, from 5.57% to 5.46%, primarily due to (i) a decrease in the average yield of loans and advances to customers, primarily due to increased market competition, and (ii) a decrease in the average yield of investment securities and other financial assets, primarily due to lower returns on our investments in non-standard credit assets, as well as our increased investments in debt securities with high liquidity and lower yields. The decrease was partially offset by an increase in the average cost of total interest-bearing liabilities, from 2.68% to 2.72%, primarily due to higher market interest rate.

Net interest margin decreased from 3.08% in 2016 to 2.91% in 2017, primarily attributable to the growth in the daily average balance of interest-earning assets driven by the growth in our business, which outpaced the growth in net interest income.

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### (v) Non-interest income

#### (A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	2016	Increase or decrease	Percentage change (%)
<b>Fee and commission income</b>				
Wealth management service fees	193.9	125.0	68.9	55.1%
Agency service fees	144.4	99.6	44.8	45.0%
Settlement and clearing fees	53.0	41.3	11.7	28.3%
Bank acceptance bill service fees	14.7	31.2	(16.5)	(52.9)%
Letters of guarantee fees	8.4	5.7	2.7	47.4%
Others <sup>(1)</sup>	48.4	24.6	23.8	96.7%
<b>Subtotal</b>	<b>462.8</b>	<b>327.4</b>	<b>135.4</b>	<b>41.4%</b>
<b>Fee and commission expenses</b>	<b>(86.1)</b>	<b>(71.1)</b>	<b>(15.0)</b>	<b>21.1%</b>
<b>Net fee and commission income</b>	<b>376.7</b>	<b>256.3</b>	<b>120.4</b>	<b>47.0%</b>

Note:

(1) Primarily include guarantee fees and advisory service income.

Net fee and commission income increased by 47.0% from RMB256.3 million in 2016 to RMB376.7 million in 2017, primarily due to increases in wealth management service fees, agency service fees and settlement and clearing fees of the Bank.

Fee and commission expenses mainly included settlement and clearing fees paid to third parties and debit card service fees. Fee and commission expenses increased by 21.1% from RMB71.1 million in 2016 to RMB86.1 million in 2017, primarily due to increases in debit cards issued and a higher volume of debit card transactions of the Bank which led to an increase in relevant expenses.

#### (B) Net trading losses

Net trading losses primarily included gains from selling, and the fair value changes of, financial assets held for trading. We had net trading losses of RMB8.0 million and RMB21.9 million in 2016 and 2017, respectively, primarily reflecting the fluctuations in market interest rates.

#### (C) Net gains/(losses) from investment securities and other financial assets

The net gains/(losses) from investment securities and other financial assets included net gains/(losses) from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to

## Chapter 4 Management Discussion and Analysis

gains or losses upon the disposal of assets. The Bank did not dispose of any investment securities in 2016. The Bank had net gains from investment securities and other financial assets of RMB116.9 million in 2017.

### (D) Net exchange (losses)/gains

Net exchange (losses)/gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. We had net exchange gains of RMB9.9 million in 2016 and net exchange losses of RMB13.2 million in 2017, primarily reflecting fluctuations in exchange rates.

### (E) Other operating income

Other operating income mainly included government subsidies and the short-term leasing and disposal income from fixed assets and mortgaged assets. Other operating income increased by 156.5% from RMB42.5 million in 2016 to RMB109.0 million in 2017. This mainly reflects the increase in government subsidies and the Bank's commitment to developing its agriculture-related loan business and income from disposal of certain repossessed assets.

### (vi) Operating expenses

Operating expenses increased by 7.8% from RMB1,903.8 million in 2016 to RMB2,052.2 million in 2017, which remained relatively stable.

The table below sets forth the principal components of operating expense of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	2016	Increase or decrease	Percentage change (%)
Staff costs	1,157.3	1,007.1	150.2	14.9%
General management and administrative expenses	431.0	433.1	(2.1)	(0.5)%
Property and equipment expenses	409.3	313.7	95.6	30.5%
Business tax and surcharge	54.6	149.9	(95.3)	(63.6)%
<b>Total</b>	<b>2,052.2</b>	<b>1,903.8</b>	<b>148.4</b>	<b>7.8%</b>
<b>Cost-to-income ratio<sup>(1)</sup></b>	<b>24.81%</b>	<b>25.16%</b>	<b>(0.35%)</b>	<b>(1.4)%</b>

Note:

(1) Calculated by dividing total operating expenses (net of business tax and surcharge) by total operating income.

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### (A) Staff costs

The table below sets forth the components of staff cost for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	2016	Increase or decrease	Percentage change (%)
Salaries and bonuses	869.7	789.1	80.6	10.2%
Social insurance	183.0	117.5	65.5	55.7%
Housing allowances	41.9	36.7	5.2	14.2%
Staff welfares	36.3	34.3	2.0	5.8%
Labour union and staff education expenses	23.8	15.3	8.5	55.6%
Others	2.6	14.2	(11.6)	(81.7)%
<b>Staff costs</b>	<b>1,157.3</b>	<b>1,007.1</b>	<b>150.2</b>	<b>14.9%</b>

Staff cost increased by 14.9% from RMB1,007.1 million in 2016 to RMB1,157.3 million in 2017, primarily reflecting a corresponding increase in the number of employees due to the expansion of our business.

### (B) Property and equipment expenses

Property and equipment expenses increased by 30.5% from RMB313.7 million in 2016 to RMB409.3 million in 2017. The increase in property and equipment expenses mainly reflected an increase in depreciation on owned properties of our newly established branches due to our branch network expansion, and an increase in depreciation on equipment due to our development of new IT systems.

### (C) General management and administrative expenses

General management and administrative expenses primarily included business promotion fees, administrative fees, transportation fee and repair expenses. General management and administrative expenses remained relatively stable at RMB433.1 million and RMB431.0 million in 2016 and 2017.

### (D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges of the Bank decreased by 63.6% from RMB149.9 million in 2016 to RMB54.6 million in 2017, primarily because the Bank began to pay VAT in lieu of business tax in May 2016 as a result of China's pilot reform for the transition from business tax to VAT.

## Chapter 4 Management Discussion and Analysis

### (vii) Impairment losses on assets

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	2016	Increase or decrease	Percentage change (%)
Loans and advances to customers	<b>1,262.5</b>	1,336.2	(73.7)	(5.5)%
Debt securities classified as receivables	<b>246.8</b>	1,162.0	(915.2)	(78.8)%
Held-to-maturity investments	<b>(2.6)</b>	3.8	(6.4)	(168.4)%
Fixed assets	<b>0.6</b>	—	0.6	—
Other receivables <sup>(1)</sup>	<b>15.7</b>	2.4	13.3	554.2%
<b>Impairment losses on assets</b>	<b>1,523.0</b>	2,504.4	(981.4)	(39.2)%

Note:

(1) Primarily include interest receivables, advance payment and repossessed assets.

Impairment losses on assets decreased by 39.2% from RMB2,504.4 million in 2016 to RMB1,523.0 million in 2017, mainly due to decreases in provisions for impairment of loans and advances to customers and debt securities classified as receivables.

Impairment losses on loans and advances to customers decreased by 5.5% from RMB1,336.2 million in 2016 to RMB1,262.5 million in 2017, mainly due to a decrease in new non-performing loans in 2017 as compared to 2016.

Impairment losses on debt securities classified as receivables decreased by 78.8% from RMB1,162.0 million in 2016 to RMB246.8 million in 2017. It is mainly due to a decrease in business for debt securities classified as receivables as compared to 2016.

### (viii) Income tax expense

Income tax expense increased by 73.3% from RMB643.6 million in 2016 to RMB1,115.4 million in 2017. The increase in income tax expense was in line with the growth of our business. Effective tax rates were 25.1% and 24.9% in 2016 and 2017, respectively.

## Chapter 4 Management Discussion and Analysis

### (b) Analysis of the Consolidated Statement of Financial Position

#### (i) Assets

As of December 31, 2017 and 2016, the total assets of the Bank were RMB271,147.6 million and RMB245,056.4 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
<b>Assets</b>				
Loans and advances to customers, gross	130,283.6	48.1%	107,855.1	44.0%
Provision for impairment losses	(5,029.0)	(1.9)%	(3,756.0)	(1.5)%
Loans and advances to customers, net	125,254.6	46.2%	104,099.1	42.5%
Investment securities and other financial assets <sup>(1)</sup>	70,105.5	25.9%	87,116.2	35.5%
Deposits with banks	30,811.7	11.4%	24,571.9	10.0%
Cash and deposits with the central bank	29,084.4	10.7%	25,079.1	10.2%
Financial assets held under resale agreements	9,819.9	3.6%	498.1	0.2%
Other assets <sup>(2)</sup>	6,071.5	2.2%	3,692.0	1.6%
<b>Total assets</b>	<b>271,147.6</b>	<b>100.0%</b>	<b>245,056.4</b>	<b>100.0%</b>

Notes:

- (1) Include debt securities classified as receivables, available-for-sale financial assets, held-to-maturity investments, and financial assets at fair value through profit or loss.
- (2) Primarily consist of property and equipment, deposit paid for acquisitions of premises, deferred tax assets, interests receivable and interests in an associate.

#### (A) Loans and advances to customers

As of December 31, 2017, the total loans and advances to customers of the Bank were RMB130,283.6 million, representing an increase of 20.8% as compared to the end of last year. Net loans and advances to customers accounted for 46.2% of the total assets of the Bank, representing an increase of approximately 3.7 percentage points as compared to the end of last year.



## Chapter 4 Management Discussion and Analysis

The table below sets forth loans and advances to customers by product as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
Corporate loans	97,253.7	74.7%	85,271.6	79.1%
Retail loans	14,638.1	11.2%	7,901.9	7.3%
Discounted bills	18,391.8	14.1%	14,681.6	13.6%
<b>Total loans and advances to customers</b>	<b>130,283.6</b>	<b>100.0%</b>	107,855.1	100.0%

Loans and advances to customers are the largest component of total assets. The Bank offers a variety of loan products, substantially all of which are denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 46.2% and 42.5% of total assets as of December 31, 2017 and 2016, respectively.

The Bank's corporate loans increased by 14.1% from RMB85,271.6 million as of December 31, 2016 to RMB97,253.7 million as of December 31, 2017, primarily due to the growth of the market demand for corporate loans.

The Bank's retail loans mainly comprise of personal business loans, personal consumption loans and residential and commercial mortgage loans. The Bank's retail loans increased by 85.2% from RMB7,901.9 million as of December 31, 2016 to RMB14,638.1 million as of December 31, 2017, primarily due to (i) the Bank's efforts to support the financing needs of small and medium-sized enterprises (including sole proprietors); (ii) the expansion of the distribution network; and (iii) the adjustment of the Bank's loan portfolio to increase the proportion of long-term loans (including residential and commercial mortgage loans).

### Loans and advances to customers by type of collateral

The table below sets forth loans and advances to customers by type of collateral as of the dates indicated. If a loan is secured by multiple forms of collateral, the classification is based on the primary form of collateral.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
Collateralized loans	58,395.8	44.8%	45,547.3	42.2%
Pledged loans	8,977.9	6.9%	8,436.1	7.8%
Guaranteed loans	50,146.6	38.5%	42,583.0	39.5%
Unsecured loans	12,763.3	9.8%	11,288.7	10.5%
<b>Total loans and advances to customers</b>	<b>130,283.6</b>	<b>100.0%</b>	107,855.1	100.0%

## Chapter 4 Management Discussion and Analysis

As of December 31, 2016 and 2017, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 89.5% and 90.2% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. We usually only accept guarantees provided by listed companies or guarantee companies. We evaluate a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans increased by 13.1% from RMB11,288.7 million as of December 31, 2016 to RMB12,763.3 million as of December 31, 2017. The increase of credit loans was primarily due to the Bank's successive launching of certain online loan products with lower risk by utilizing big data resources.

### *Change to the provisions for impairment losses on loans and advances to customers*

The table below sets forth the change to the provision for impairment losses on loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	2017	2016
<b>As of January 1</b>	<b>3,756.0</b>	2,419.8
Charge for the year	<b>1,262.5</b>	1,336.2
Reversal of write-offs for the previous years	<b>10.5</b>	—
<b>As of December 31</b>	<b>5,029.0</b>	3,756.0

Provisions for impairment losses on loans increased by 33.9% from RMB3,756.0 million as of December 31, 2016 to RMB5,029.0 million as of December 31, 2017, primarily due to the increase in the Bank's provision for impairment losses to counter against uncertainties arising from macroeconomic operation.

### *(B) Investment securities and other financial assets*

As of December 31, 2017 and 2016, the Bank's investment securities and other financial assets were RMB70,105.5 million and RMB87,116.2 million, representing 25.9% and 35.5% of total assets, respectively.

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products. Investment securities and other financial assets decreased by RMB17,010.7 million from RMB87,116.2 million as of December 31, 2016 to RMB70,105.5 million as of December 31, 2017. This decrease primarily reflected the adjustment of our investment portfolio based on investment considerations, market conditions and other factors.

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### (ii) Liabilities

As of December 31, 2017 and 2016, the total liabilities of the Bank were RMB254,534.6 million and RMB231,712.7 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) debt securities issued; (iii) financial assets sold under repurchase agreements; and (iv) deposits from banks and other financial institutions. The table below sets forth the components of total liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
Deposits from customers	192,230.6	75.5%	171,165.3	73.9%
Deposits from banks and other financial institutions	20,178.4	7.9%	35,777.4	15.4%
Financial assets sold under repurchase agreements	5,817.5	2.3%	4,580.5	2.0%
Debt securities issued	23,960.8	9.4%	10,134.9	4.4%
Borrowings from the central bank	5,290.4	2.1%	5,692.9	2.4%
Placements with banks and other financial institutions	1,050.0	0.4%	—	—
Other liabilities <sup>(1)</sup>	6,006.9	2.4%	4,361.7	1.9%
<b>Total liabilities</b>	<b>254,534.6</b>	<b>100.0%</b>	<b>231,712.7</b>	<b>100.0%</b>

Note:

(1) Primarily include interest payable, taxes payable, staff costs and deferred tax liabilities.

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### (A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of December 31, 2016 and 2017, deposits from customers represented 73.9% and 75.5% of the total liabilities, respectively.

We offer RMB-denominated demand and time deposit products to corporate and retail customers. The table below sets forth deposits from customers by product and customer type as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
<b>Corporate deposits</b>				
Demand deposits	67,636.1	35.2%	56,499.7	33.0%
Time deposits	14,793.2	7.7%	20,603.3	12.0%
<b>Subtotal</b>	<b>82,429.3</b>	<b>42.9%</b>	77,103.0	45.0%
<b>Retail deposits</b>				
Demand deposits	22,077.3	11.5%	20,115.2	25.4%
Time deposits	59,921.8	31.2%	43,494.8	11.8%
<b>Subtotal</b>	<b>81,999.1</b>	<b>42.7%</b>	63,610.0	37.2%
<b>Pledged deposits</b>	<b>17,447.3</b>	<b>9.0%</b>	18,059.6	10.6%
<b>Others<sup>(1)</sup></b>	<b>10,354.9</b>	<b>5.4%</b>	12,392.7	7.2%
<b>Total deposits from customers</b>	<b>192,230.6</b>	<b>100.0%</b>	171,165.3	100.0%

Note:

(1) Deposits raised from other investment vehicles.

Total deposits from customers increased by 12.3% from RMB171,165.3 million as of December 31, 2016 to RMB192,230.6 million as of December 31, 2017. The increases in deposits from customers were primarily attributable to our enhanced marketing efforts to grow corporate deposits and retail deposits.

### (B) Debts securities issued

In August 2017, we issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.85% per annum.

## Chapter 4 Management Discussion and Analysis

In March 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.67% per annum.

In April 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of five years and bear an interest rate of 5.00% per annum.

In May 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.90% per annum.

In December 2015, we issued tier-two capital bonds in an aggregate principal amount of RMB3,200.0 million. The bonds have a term of 10 years and bear an interest rate of 5.10% per annum. We have an option to redeem the bonds on December 11, 2020 at par.

From January 1, 2016 to December 31, 2016, we issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB35,890.0 million. These interbank certificates have terms of one month to one year and bear effective interest rates between 2.55% and 4.82% per annum.

From January 1, 2017 to December 31, 2017, we issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB44,980.0 million. These interbank certificates have terms of one month to one year and bear effective interest rates between 3.10% and 5.42% per annum.

### (iii) Shareholders' equity

The table below sets forth the change in shareholders' equity of the Bank as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
Share capital	7,526.0	45.3%	7,526.0	56.4%
Capital reserve	1,767.7	10.6%	1,765.2	13.2%
Defined benefit scheme reserve	(0.7)	—	(4.1)	(0.0)%
Investment revaluation reserve	(125.3)	(0.8)%	(27.1)	(0.2)%
Surplus reserve	893.0	5.4%	557.7	4.2%
General reserve	3,631.6	21.9%	3,226.1	24.2%
Retained earnings	2,889.0	17.4%	271.4	2.0%
Non-controlling interests	31.7	0.2%	28.4	0.2%
<b>Total equity</b>	<b>16,613.0</b>	<b>100.0%</b>	<b>13,343.6</b>	<b>100.0%</b>

## Chapter 4 Management Discussion and Analysis

### (c) Asset quality analysis

#### (i) Breakdown of loans by the five-category classification

For the Bank, the non-performing loans are classified into loans and advances to customers of substandard, doubtful and loss. As of December 31, 2017, the Bank's non-performing loans amounted to RMB2,265.3 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
Normal	120,835.5	92.7%	103,799.9	96.2%
Special mention	7,182.8	5.5%	2,106.3	2.0%
Substandard	780.2	0.6%	749.5	0.7%
Doubtful	858.6	0.7%	1,014.5	0.9%
Loss	626.5	0.5%	184.9	0.2%
<b>Total loans and advances to customers</b>	<b>130,283.6</b>	<b>100.0%</b>	<b>107,855.1</b>	<b>100.0%</b>
<b>Non-performing loans and non-performing loan ratio<sup>(1)</sup></b>	<b>2,265.3</b>	<b>1.74%</b>	<b>1,948.9</b>	<b>1.81%</b>

Note:

(1) Calculated by dividing non-performing loans by total loans and advances to customers.

As of December 31, 2017 and 2016, the non-performing loan ratios of the Bank were 1.74% and 1.81%, respectively, which remained relatively stable.

## Chapter 4 Management Discussion and Analysis

### (ii) Concentration of loans

#### (A) Concentration by industry and distribution of non-performing loans

The table below sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017				As of December 31, 2016			
	Loan amount	% of performing total loan amount	Non-performing	Non-performing loan ratio	Loan amount	% of performing total loan amount	Non-performing	Non-performing loan ratio
<b>Corporate loans</b>								
Wholesale and retail	18,232.4	14.0%	783.7	4.30%	14,972.7	13.9%	661.9	4.42%
Manufacturing	15,743.3	12.1%	346.4	2.20%	14,727.8	13.7%	482.8	3.28%
Agriculture, forestry, animal husbandry and fishing	15,728.2	12.1%	399.1	2.54%	14,226.4	13.2%	223.8	1.57%
Construction	12,101.3	9.3%	122.0	1.01%	9,248.9	8.6%	124.9	1.35%
Real estate	13,685.8	10.5%	—	—	8,819.3	8.2%	12.5	0.14%
Mining	7,087.5	5.4%	208.0	2.93%	6,814.5	6.3%	103.0	1.51%
Water, environment and public facility management	3,133.2	2.4%	—	—	3,797.1	3.5%	—	—
Culture, sports and entertainment	2,628.0	2.0%	2.3	0.09%	2,387.6	2.2%	2.4	0.10%
Leasing and business services	1,695.6	1.3%	27.0	1.59%	3,278.8	3.0%	21.0	0.64%
Electricity, heating power, gas and water production and supply	2,545.3	2.0%	30.0	1.18%	1,892.5	1.8%	2.1	0.11%
Transportation, storage and postal services	1,173.8	0.9%	38.3	3.26%	2,149.1	2.0%	51.7	2.41%
Education	1,384.6	1.0%	—	—	1,120.6	1.0%	5.0	0.45%
Accommodation and catering	1,172.3	0.9%	60.8	5.19%	1,076.9	1.0%	59.7	5.54%
Financial	3.0	0.0%	—	—	0.6	0.0%	—	—
Health and social services	463.4	0.4%	—	—	408.8	0.3%	2.8	0.68%
Residents and other services	224.3	0.2%	2.5	1.11%	199.2	0.2%	—	—
Scientific research , technical service and geological prospecting	126.0	0.1%	—	—	78.6	0.1%	—	—
Information transmission, computer service and software	74.3	0.1%	3.0	4.04%	63.7	0.1%	3.0	4.71%
Public administration, social security and social organizations	51.4	—	—	—	8.5	0.0%	—	—
<b>Retail loans</b>	<b>14,638.1</b>	<b>11.2%</b>	<b>242.2</b>	<b>1.65%</b>	<b>7,901.9</b>	<b>7.3%</b>	<b>192.3</b>	<b>2.43%</b>
<b>Discounted bills</b>	<b>18,391.8</b>	<b>14.1%</b>	<b>—</b>	<b>—</b>	<b>14,681.6</b>	<b>13.6%</b>	<b>—</b>	<b>—</b>
<b>Total amount</b>	<b>130,283.6</b>	<b>100.0%</b>	<b>2,265.3</b>	<b>1.74%</b>	<b>107,855.1</b>	<b>100.0%</b>	<b>1,948.9</b>	<b>1.81%</b>

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

## Chapter 4 Management Discussion and Analysis

Loans to borrowers in the wholesale and retail, manufacturing, agriculture, forestry, animal husbandry and fishery, construction, and real estate industries represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 72.7% and 77.6% of total corporate loans as of December 31, 2016 and 2017, respectively.

As of December 31, 2017, non-performing loans of the Bank's corporate loans were mainly concentrated in the accommodation and catering industry and the wholesale and retail industry, with a non-performing loan ratio of 5.19% and 4.30%, respectively.

### (B) Borrower concentration

#### Indicators of concentration

Major regulatory indicators	Regulatory standard	As of December 31, 2017	As of December 31, 2016
Loan concentration ratio for the largest single customer (%)	≤ 10	4.56%	9.31%
Loan concentration ratio for the top ten customers (%)	≤ 50	35.35%	40.18%

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



## Chapter 4 Management Discussion and Analysis

### Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of December 31, 2017 and the balances of loans to these borrowers. All of these loans were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)		As of December 31, 2017		
Customers	Industries involved	Amount	% of total loans	% of regulatory capital
Borrower A	Mining	1,000.0	0.8%	4.56%
Borrower B	Leasing and business services	967.8	0.7%	4.41%
Borrower C	Manufacturing	876.4	0.7%	3.99%
Borrower D	Real estate	800.0	0.6%	3.64%
Borrower E	Construction	800.0	0.6%	3.64%
Borrower F	Culture, sports and entertainment	716.6	0.6%	3.26%
Borrower G	Mining	700.0	0.5%	3.19%
Borrower H	Construction	699.0	0.5%	3.18%
Borrower I	Manufacturing	600.0	0.5%	2.74%
Borrower J	Culture, sports and entertainment	600.0	0.5%	2.74%
<b>Total</b>		<b>7,759.8</b>	<b>6.0%</b>	<b>35.35%</b>

## Chapter 4 Management Discussion and Analysis

### (C) Non-performing loans by product

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017			As of December 31, 2016		
	Loan amount	Non- performing loan amount	Non- performing loan ratio <sup>(1)</sup> (%)	Loan amount	Non- performing loan amount	Non- performing loan ratio <sup>(1)</sup> (%)
<b>Corporate loans</b>						
Fixed asset loans	32,509.8	150.0	0.46%	25,102.0	32.5	0.13%
Working capital loans	64,473.9	1,714.3	2.66%	59,994.1	1,548.5	2.58%
Others <sup>(2)</sup>	270.0	158.8	58.81%	175.5	175.6	100.00%
<b>Sub-total</b>	<b>97,253.7</b>	<b>2,023.1</b>	<b>2.08%</b>	<b>85,271.6</b>	<b>1,756.6</b>	<b>2.06%</b>
<b>Retail loans</b>						
Personal business loans	6,693.4	215.2	3.21%	3,696.7	167.3	4.53%
Personal consumption loans	3,962.7	21.5	0.54%	1,704.0	8.4	0.49%
Residential and commercial mortgage loans	3,982.0	5.5	0.14%	2,501.2	16.6	0.67%
<b>Sub-total</b>	<b>14,638.1</b>	<b>242.2</b>	<b>1.65%</b>	<b>7,901.9</b>	<b>192.3</b>	<b>2.43%</b>
<b>Discounted bills</b>	<b>18,391.8</b>	<b>—</b>	<b>—</b>	<b>14,681.6</b>	<b>—</b>	<b>—</b>
<b>Total non-performing loans</b>	<b>130,283.6</b>	<b>2,265.3</b>	<b>1.74%</b>	<b>107,855.1</b>	<b>1,948.9</b>	<b>1.81%</b>

Notes:

(1) Calculated by dividing non-performing loans by loans and advances to customers of each product category.

(2) Primarily consist of advances for bank acceptance bill.

## Chapter 4 Management Discussion and Analysis

The non-performing loan ratio of corporate loans increased from 2.06% as of December 31, 2016 to 2.08% as of December 31, 2017, which remained relatively stable.

The non-performing loan ratio of retail loans decreased from 2.43% as of December 31, 2016 to 1.65% as of December 31, 2017, primarily due to our enhanced efforts to recover loans from delinquent customers and customers with potential risks.

### (D) Loan aging schedule

The table below sets forth the loan aging schedule for loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
<b>Loans not overdue</b>	<b>124,916.9</b>	<b>95.9%</b>	105,591.4	97.9%
<b>Loans past due for:</b>				
1 to 90 days	2,042.1	1.6%	390.7	0.4%
91 days to 1 year	1,521.2	1.2%	1,245.0	1.1%
1 to 3 years	1,356.0	1.0%	593.6	0.6%
3 years or more	447.4	0.3%	34.4	0.0%
<b>Subtotal</b>	<b>5,366.7</b>	<b>4.1%</b>	2,263.7	2.1%
<b>Total loans and advances to customers</b>	<b>130,283.6</b>	<b>100.0%</b>	107,855.1	100.0%

## Chapter 4 Management Discussion and Analysis

### (d) Segments information

#### (i) Summary of business segment

We operate three principal lines of business: corporate banking, retail banking and financial market operations. The table below sets forth the operating income for each of our principal business segments for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017		2016	
	Amount	% of total	Amount	% of total
Corporate banking	4,455.6	55.3%	4,077.7	58.5%
Retail banking	1,016.3	12.6%	767.2	11.0%
Financial market operations	2,464.3	30.6%	2,050.8	29.4%
Others <sup>(1)</sup>	116.3	1.5%	75.2	1.1%
<b>Total operating income</b>	<b>8,052.5</b>	<b>100.0%</b>	<b>6,970.9</b>	<b>100.0%</b>

Note:

(1) Primarily represent assets, liabilities, income and expenses which cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

#### (ii) Summary of geographical segment information

No geographical information is presented as most of the Group's operations are conducted in Gansu Province of the PRC and all non-current assets are located and therefore revenue is derived from activities in Gansu province of the PRC.

## Chapter 4 Management Discussion and Analysis

### (e) Off-balance sheet commitments

Off-balance sheet commitments primarily consist of loan commitments, bank acceptances, letters of guarantee, operating lease commitments and capital commitments. The table below sets forth our contractual amounts of off-balance sheet commitments as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017	As of December 31, 2016
<b>Credit commitments:</b>		
Loan commitments	24.0	—
Bank acceptances <sup>(1)</sup>	29,352.8	31,392.8
Letters of guarantee <sup>(2)</sup>	516.2	431.5
<b>Subtotal</b>	<b>29,893.0</b>	31,824.3
<b>Operating lease commitments</b>	<b>372.9</b>	447.3
<b>Capital commitments</b>	<b>298.8</b>	142.5
<b>Total</b>	<b>30,564.7</b>	32,414.1

Notes:

(1) Bank acceptances refer to our undertakings to pay bank bills drawn on our customers.

(2) We issue letters of credit and guarantee to third parties to guarantee our customers' contractual obligations.

Off-balance sheet commitments decreased by 5.7% from RMB32,414.1 million as of December 31, 2016 to RMB30,564.7 million as of December 31, 2017. The decreases in off-balance sheet commitments were primarily due to the decreases in bank acceptance bills issued.

## Chapter 4 Management Discussion and Analysis

### BUSINESS REVIEW

#### (a) Corporate banking

We offer corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee- and commission-based products and services. Our corporate customers primarily include government agencies, public organizations, SOEs, private enterprises and foreign-invested enterprises. We are committed to serving local customers with a focus on small and micro enterprises.

In addition, we committed to seeking to develop long-term relationships with customers by closely monitoring their financial needs and offering tailored financial solutions. As of December 31, 2017, we had 4,325 corporate borrowers with total loans of RMB97,253.7 million, and 52,917 corporate deposit customers with total deposits of RMB82,429.3 million. In 2016 and 2017, operating income from our corporate banking business accounted for 58.5% and 55.3% of our total operating income, respectively. The table below sets forth the financial performance of our corporate banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2017	2016	
<b>External interest (expenses)/income, net<sup>(1)</sup></b>	<b>4,821.8</b>	<b>4,481.6</b>	<b>7.6%</b>
<b>Inter-segment interest income/(expenses), net<sup>(2)</sup></b>	<b>(510.0)</b>	<b>(541.7)</b>	<b>(5.9)%</b>
Net interest income	<b>4,311.8</b>	3,939.9	9.4%
Net fees and commission income	<b>143.8</b>	137.8	4.4%
<b>Operating income</b>	<b>4,455.6</b>	4,077.7	9.3%
Operating expenses	<b>(1,135.6)</b>	(1,113.7)	2.0%
Impairment losses on assets	<b>(953.3)</b>	(1,041.9)	(8.5)%
Operating profit	<b>2,366.7</b>	1,922.1	23.1%
Share of profit of an associate	—	—	—
<b>Profit before tax</b>	<b>2,366.7</b>	1,922.1	23.1%

Notes:

(1) Represents net income and expenses from third parties.

(2) Represents inter-segment expenses and consideration of transfer.

(3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

## Chapter 4 Management Discussion and Analysis

### **(i) Corporate loans**

Corporate loans constituted the largest component of our loan portfolio. As of December 31, 2017 and 2016, corporate loans amounted to RMB97,253.7 million and RMB85,271.6 million, accounting for 74.7% and 79.1% of our total loans and advances to customers, respectively.

### **(ii) Discounted bills**

We purchase bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of December 31, 2017 and 2016, discounted bills totaled RMB18,391.8 million and RMB14,681.6 million, accounting for 14.1% and 13.6% of our total loans and advances to customers, respectively.

### **(iii) Corporate deposits**

We accept demand and time deposits denominated in Renminbi and major foreign currencies (including USD, HK dollar and EUR) from corporate customers. As of December 31, 2017 and 2016, corporate deposits totaled RMB82,429.3 million and RMB77,103.0 million, accounting for 42.9% and 45.0% of our total customer deposits, respectively.

### **(iv) Fee- and commission-based products and services**

We offer corporate customers a broad range of fee- and commission-based products and services, primarily including wealth management services, entrusted loans, settlement services and consultation and financial advisory services.

#### ***(A) Wealth management services***

We offer corporate customers a broad range of wealth management products based on their risk and return preferences. We invest funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products.

In 2017 and 2016, wealth management products sold to corporate customers totaled RMB2,009.9 million and RMB1,516.4 million, respectively.

#### ***(B) Entrusted loans***

We provide loans to borrowers designated by corporate customers, who determine the use of proceeds, principal amount and interest rates for these loans. We monitor the use of entrusted loans by borrowers and assist corporate customers in recovering these loans.

We charge agency fees based on the principal amount of entrusted loans. Our corporate customers bear the risk of default associated with these loans. In 2017 and 2016, service fees charged to corporate customers for entrusted loans totaled RMB144.4 million and RMB99.6 million, respectively.

## Chapter 4 Management Discussion and Analysis

### **(C) Settlement services**

We offer corporate customers domestic and international settlement services.

**Domestic Settlement Services.** We provide domestic settlement services in the form of bank acceptance bills, collections and telegraphic transfers. As of December 31, 2017 and 2016, our total domestic settlement transaction volumes were approximately RMB7,910.2 billion and RMB8,344.3 billion, respectively.

**International Settlement Services.** We obtained approval to provide international settlement services in January 2014. Our international settlement services primarily include remittance, collection, letters of credit and letters of guarantee.

We established cooperative relationships with eighteen overseas corporate customers. As of December 31, 2017 and 2016, our international settlement transaction volumes were US\$664 million and US\$204.0 million, of which settlement transactions involving Iran had total volumes of US\$591 million and US\$151.2 million, respectively.

### **(D) Consultation and financial advisory services**

We structure financial solutions and offer advisory services with respect to the economy, financial markets and industry trends for corporate customers. In 2017 and 2016, our fee and commission income from consultation and financial advisory services were RMB0.8 million and RMB2.4 million, respectively.

### **(E) Other fee- and commission-based products and services**

We offer other fee- and commission-based products and services to corporate customers, such as guarantee and foreign exchange services.

### **(b) Retail banking**

We offer retail customers a wide range of financial products and services, including loans, deposits, bank card services and fee- and commission-based products and services. We have a large retail customer base.

As of December 31, 2017, we had 47,702 retail borrowers with total loans of RMB14,638.1 million and over 5.4 million retail deposit customers with total deposits of RMB81,999.1 million. In 2017 and 2016, operating income from our retail banking business accounted for 12.6% and 11.0% of our total operating income, respectively.

We categorize retail banking customers into regular customers (with average financial asset balances of under RMB50,000), wealth management customers (with average financial asset balances of RMB50,000 or above but less than RMB200,000), wealthy customers (with average financial asset balances of RMB200,000 or above but less than RMB3.0 million) and private banking customers (with average financial asset balances of RMB3.0 million or above).



## Chapter 4 Management Discussion and Analysis

As of December 31, 2017, we had 115,048 wealthy customers and 920 private banking customers. We continue to grow our wealthy customer and private banking customer base by expanding our product and service portfolio. The table below sets forth the financial performance of our retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2017	2016	
External interest income/(expenses), net <sup>(1)</sup>	(1,492.4)	(1,300.8)	14.7%
Inter-segment interest (expenses)/income, net <sup>(2)</sup>	2,490.3	2,097.3	18.7%
Net interest income	997.9	796.5	25.3%
Net fee and commission income	18.4	(29.3)	162.5%
<b>Operating income</b>	<b>1,016.3</b>	767.2	32.5%
Operating expenses	(259.0)	(209.5)	23.6%
Impairment losses on assets	(221.2)	(152.2)	45.3%
Operating profit	536.1	405.5	32.2%
<b>Profit before tax</b>	<b>536.1</b>	405.5	32.2%

Notes:

- (1) Represents net income and expenses from third parties.
- (2) Represents inter-segment expenses and consideration of transfer.

### (i) Retail loans

We offer retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of December 31, 2017 and 2016, total retail loans were RMB14,638.1 million and RMB7,901.9 million, accounting for 11.2% and 7.3% of our total loans and advances to customers, respectively.

### (ii) Retail deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of December 31, 2017 and 2016, retail deposits totaled RMB81,999.1 million and RMB63,610.0 million, accounting for 42.7% and 37.2% of our total customer deposits, respectively.

## Chapter 4 Management Discussion and Analysis

### (iii) Bank card services

#### (A) Debit cards

We issue debit cards denominated in Renminbi to retail customers holding deposit accounts with us. Customers may use debit cards for a variety of purposes, such as cash deposits and withdrawals, transfers, payments, settlements, consumption, bill payments, financing and wealth management. We provide cardholders with differentiated services by classifying debit cards into basic cards, gold cards, platinum cards and diamond cards based on a bank cardholder's deposit balances.

To expand our customer base and service scope, we issue the following debit cards in cooperation with government agencies and public organizations:

- Social Security Card (社會保障卡): We work with the Department of Human Resources and Social Security of Gansu Province (甘肅省人力資源和社會保障廳) to issue debit cards, which can be used for making social security contributions and social security information inquiries.
- Housing Provident Fund Co-branded Cards (公積金聯名卡): We work with the local housing provident fund management center to issue debit cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.
- Longyuan Transportation Cards (隴原交通卡): We work with the Gansu Province Expressway Management Bureau to issue IC financial cards, which can be used for paying expressway tolls electronically.

In addition, to enhance our brand recognition, we cooperate with local governments to issue theme cards based on regional characteristics of Gansu province, such as the Golden Tower Golden Poplar Card (金塔金胡楊卡), Xionguan Card (雄關卡), the Journey of Xuanzang Card (玄奘之路卡) and Long Nan Landscape Card (隴南山水卡). We also cooperate with various institutions in issuing co-branded cards, including the Gansu Police Vocational College Co-branded Card (甘肅警察職業學校聯名卡), Tianshui High School Student Aid Card (天水高中生資助卡) and Qingyang Traffic Police Co-branded Card (慶陽交警聯名卡).

As of December 31, 2017, we had issued approximately 5.88 million debit cards. As of December 31, 2017 and 2016, holders of these debit cards conducted transactions of approximately RMB19,751.3 million and RMB16,639.7 million, respectively.

#### (B) Credit cards

In August 2013, we obtained approval to issue the Official Financial and Business Card (財政公務卡) to employees that work in budgetary institutions in Gansu province, mainly to cover their daily official expenses, reimbursements and personal consumption needs.

We obtained approval to issue credit cards in June 2016.

## Chapter 4 Management Discussion and Analysis

### **(C) POS settlement services**

As a payment settlement service provider, we provide selected merchants with transaction fund settlement services. As of December 31, 2017, we had 17,057 selected merchant customers for POS settlement services and 23,599 POS terminals.

### **(iv) Fee- and commission-based products and services**

We offer retail customers a wide range of fee- and commission-based products and services, primarily including wealth management services, agency services and payroll and payment agency services.

### **(A) Wealth Management Services**

We offer retail customers wealth management products under our Huifu (匯福) series based on their risk and return preferences. We invest funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products.

In 2017 and 2016, wealth management products sold to retail customers totaled RMB29,572.30 million and RMB32,933.5 million, respectively. As of December 31, 2017, we had over 212,375 retail wealth management clients and the return rate of our retail wealth management products was between 3.60% to 5.66% in 2017.

### **(B) Agency services**

We sell insurance and precious metal products to retail customers as an agent.

*Insurance Products.* As of December 31, 2017, we had entered into agency agreements with 6 nationwide insurance companies to promote and distribute their insurance products.

*Precious Metal Products.* We received approval to distribute precious metals in China in August 2015. In 2017 and 2016, we sold an aggregate of RMB59.3 million and RMB36.0 million of precious metal products, respectively.

In October 2016, Dunhuang Research Academy granted us an exclusive license to jointly develop and sell precious metal products featuring Mogao Grottoes.

In addition, we have completed the development of a fund agent system and fund qualification training for our employees.

### **(C) Payroll and payment agency services**

*Payroll Services.* We provide payroll services to governmental agencies, public organizations and enterprises customers. As of December 31, 2017, we had over 679,777 payroll customers. In 2017 and 2016, we paid, in the role of paying agent, average monthly salaries of approximately RMB1,771.5 million and RMB1,407.1 million, respectively.

*Payment Agency Services.* We offer customers payment agency services related to daily living expenses (such as utilities costs) through our broad distribution network.

### **(D) Other fee- and commission-based products and services**

We offer other fee- and commission-based products and services to retail customers, such as fund transfer, remittance and acceptance services.

## Chapter 4 Management Discussion and Analysis

### (c) Financial market operations

Our financial market operations, which primarily include money market transactions, investment business and wealth management business, are one of our most important revenue sources. In 2017 and 2016, operating income from financial market operations accounted for 30.6% and 29.2% of our total operating income, respectively. The table below sets forth the financial performance of the Bank's treasury operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percent change (%)
	2017	2016	
External interest (expenses)/income, net <sup>(1)</sup>	4,155.6	3,489.4	19.1%
Inter-segment interest income/(expenses), net <sup>(2)</sup>	(1,980.3)	(1,555.6)	27.3%
Net interest income	2,175.3	1,933.8	12.5%
Net fee and commission income	193.9	125.0	55.1%
Trading income (expenses)	(21.9)	(8.0)	173.8%
Net losses arising from investment securities	116.9	—	100.0%
<b>Operating income</b>	<b>2,464.2</b>	<b>2,050.8</b>	<b>20.2%</b>
Operating expenses	(628.0)	(560.1)	12.1%
Impairment losses on assets	(332.3)	(1,307.9)	(74.6)%
Operating profit	1,503.9	182.8	722.3%
<b>Profit before tax</b>	<b>1,503.9</b>	<b>182.8</b>	<b>722.3%</b>

Notes:

- (1) Represents net income and expenses from third parties.
- (2) Represents inter-segment expenses and consideration of transfer.
- (3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

## Chapter 4 Management Discussion and Analysis

### **(i) Money market transactions**

We adjust our liquidity using various monetary market instruments and earn interest income from money market transactions. Money market transactions primarily include (i) interbank deposits; (ii) interbank placements; and (iii) repurchase and reverse repurchase transactions.

#### ***(A) Interbank deposits***

We deposit and withdraw funds from banks and other financial institutions to manage our assets and liabilities. We accept deposits from banks and other financial institutions and deposit money in banks and other financial institutions, and also engage in other interbank transactions with certain of these banks and financial institutions.

As of December 31, 2017 and 2016, deposits from banks and other financial institutions totaled RMB20,178.4 million and RMB35,777.4 million, and our deposits at banks and other financial institutions totaled RMB30,811.7 million and RMB24,571.9 million, respectively.

#### ***(B) Interbank placements***

As of December 31, 2017 and 2016, we did not make any placements with banks and other financial institutions. As of the same dates, placements from banks and other financial institutions totaled RMB1,050 million and nil, respectively.

#### ***(C) Repurchase and reverse repurchase transactions***

The securities underlying our repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of December 31, 2017 and 2016, financial assets held under resale agreements totaled RMB9,819.9 million and RMB498.1 million, and financial assets sold under repurchase agreements totaled RMB5,817.5 million and RMB4,580.5 million, respectively.

## Chapter 4 Management Discussion and Analysis

### (ii) Investment securities and other financial assets

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products.

### (A) Security investment by holding purpose

The table below sets forth investment securities and other financial assets by investment intention as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
Debt securities classified as receivables	48,182.6	68.7%	73,647.9	84.6%
Available-for-sale financial assets	13,057.2	18.6%	6,199.6	7.1%
Held-to-maturity investments	8,616.1	12.3%	6,729.1	7.7%
Financial assets at fair value through profit or loss	249.6	0.4%	539.6	0.6%
<b>Total amount of investment securities and other financial assets</b>	<b>70,105.5</b>	<b>100.0%</b>	<b>87,116.2</b>	<b>100.0%</b>

Debt securities classified as receivables decreased by 34.6% from RMB73,647.9 million as of December 31, 2016 to RMB48,182.6 million as of December 31, 2017. Available-for-sale financial assets increased by 110.6% from RMB6,199.6 million as of December 31, 2016 to RMB13,057.2 million as of December 31, 2017. Held-to-maturity investment increased by 28.0% from RMB6,729.1 million as of December 31, 2016 to RMB8,616.1 million as of December 31, 2017. Financial assets at fair value through profit or loss decreased by 53.7% from RMB539.6 million as of December 31, 2016 to RMB249.6 million as of December 31, 2017.

## Chapter 4 Management Discussion and Analysis

### (B) Maturity profile of the Bank's investment portfolio

The table below sets forth investment securities and other financial assets by remaining maturity as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017		As of December 31, 2016	
	Amount	% of total	Amount	% of total
Repayable on demand	—	—	100.0	0.1%
Due in three months or less	14,885.3	21.2%	16,558.4	19.0%
Due between three months and one year	18,661.4	26.6%	29,119.2	33.4%
Due between one year and five years	32,251.2	46.0%	35,273.6	40.5%
Due over five years	4,307.6	6.2%	5,237.5	6.0%
Indefinite <sup>(1)</sup>	—	—	827.5	1.0%
<b>Total</b>	<b>70,105.5</b>	<b>100.0%</b>	<b>87,116.2</b>	<b>100.0%</b>

Note:

(1) Refers to impaired investments, investments overdue for more than one month and equity investments.

The Bank's securities investment with a remaining maturity between one year and five years represent the largest portion of the Bank's investment securities.

## Chapter 4 Management Discussion and Analysis

### (C) Holding of government bonds

As of December 31, 2017, the balance of face value of government bonds held by the Bank amounted to RMB5,092.3 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of December 31, 2017.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum	Maturity date
16 Interest-bearing treasury bond 22 (16附息國債22)	1,000.0	2.29	October 27, 2019
16 Gansu Targeted 02 (16甘肅定向02)	677.6	3.26	April 21, 2023
17 Interest-bearing treasury bond 12 (17附息國債12)	500.0	3.62	June 15, 2019
16 Gansu Targeted 01 (16甘肅定向01)	443.0	3.26	April 21, 2023
17 Gansu bond 03 (17甘肅債03)	440.0	3.97	June 16, 2020
17 Gansu bond 22 (17甘肅債22)	420.0	3.80	October 18, 2024
17 Gansu bond 04 (17甘肅債04)	250.0	3.98	June 16, 2022
17 Gansu bond 21 (17甘肅債21)	200.0	4.26	October 18, 2027
16 Interest-bearing treasury bond 09 (16附息國債09)	200.0	2.55	April 28, 2019
17 Gansu bond 06 (17甘肅債06)	170.0	4.04	June 16, 2024



## Chapter 4 Management Discussion and Analysis

### (D) Holding of financial bonds

As of December 31, 2017, the balance of face value of the financial bonds (mainly the financial bonds issued by policy banks, corporate issuers, commercial banks and other financial institutions) held by the Bank amounted to RMB6,245.65 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of December 31, 2017.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum	Maturity date
15 ADBC bond 15 (15農發15)	1,000.0	3.73	May 22, 2020
17 CDB bond 09 (17國開09)	600.0	4.14	September 11, 2020
15 CDB bond 13 (15國開13)	500.0	3.86	June 25, 2020
14 CDB bond 02 (14國開02)	410.0	5.75	January 14, 2019
15 EIBC bond 03 (15進出03)	350.0	3.85	January 26, 2020
14 CEC MTN001 bond (14中電MTN001)	300.0	5.40	June 13, 2019
14 AEC MTN001 5-year bond (14皖高速MTN001) (5年期)	300.0	6.38	April 11, 2019
15 CDB bond 12 (15國開12)	300.0	3.54	June 18, 2018
16 EIBC bond 05 (16進出05)	300.0	3.02	May 16, 2019
17 LJB CD147 bond (17龍江銀行CD147)	300.0	3.83	October 20, 2018

### (d) Distribution network

#### (i) Physical outlets

As of December 31, 2017, we had 1 head office operational department, 12 branches, 187 sub-branches and 2 micro-to-small sub-branches. Our branch network covered all of Gansu's cities and prefectures and approximately 86% of its counties and districts.

## Chapter 4 Management Discussion and Analysis

### (ii) Electronic banking business

#### (A) Internet banking

Through the Internet, we offer customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of December 31, 2017, we had over 1 million Internet banking customers, consisting of 30,219 corporate customers and over 977 thousand retail customers. As of December 31, 2017, our corporate customers conducted over 3.6 million online transactions with a total transaction amount of approximately RMB686,200 million, while retail customers conducted approximately 4.4 million online transactions with a total transaction amount of approximately RMB166,686.0 million.

#### (B) Direct banking platform

We launched our direct banking platform in August 2016. Through the platform, our customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of December 31, 2017, our direct banking platform had over 417,600 registered users with total transaction amounts of RMB4,047.4 million. The sales volume of direct banking platform products exceeded RMB1,351.8 million.

#### (C) Mobile phone banking

We provide customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of December 31, 2017, we had approximately 1.3 million mobile phone banking customers that had conducted approximately 8.0 million transactions through mobile phones, with total transaction amounts of approximately RMB81,680.0 million.

#### (D) Telephone banking

We provide customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of December 31, 2017, we had 247,393 telephone banking customers, including 247,378 individual customers and 15 corporate customers.

#### (E) Self-service banking

We provide convenient banking services to customers at lower operating costs through self-service facilities. Our self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of December 31, 2017, we had 202 outlets, 171 off-bank self-service zones and 772 self-service facilities.

#### (F) WeChat banking

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access our products and services; manage accounts, transaction inquires, payment and convenience services; and search for our outlet locations. As of December 31, 2017, we had over 380,000 WeChat banking customers.

## Chapter 4 Management Discussion and Analysis

### **(G) E-commerce platform**

In April 2017, we formally launched our e-commerce platform “Longyin Commerce”, which provides merchants with comprehensive services. These services include purchasing, sales and inventory management, and online B2B and B2C transactions. As of December 31, 2017, the platform had 473 merchants and 27,124 users.

### **(e) Information on the subsidiary**

#### **Jingning Chengji Rural Bank**

In March 2007, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of December 31, 2017, we held an approximately 62.73% equity interest in Jingning Chengji Rural Bank.

Jingning Chengji Rural Bank offers financial products and services, including loans, deposits and fee- and commission-based products and services to local corporate and retail customers.

As of December 31, 2017, Jingning Chengji Rural Bank had 21 corporate loan customers, 501 corporate deposit customers, 3,102 retail loan customers and 63,917 retail deposit customers. As of December 31, 2017, Jingning Chengji Rural Bank had 12 outlets and 103 employees.

As of December 31, 2017, Jingning Chengji Rural Bank had total assets of RMB1,324.5 million, total deposits of RMB1,068.5 million and total loans of RMB616.6 million. In 2016 and 2017, operating income attributable to Jingning Chengji Rural Bank totaled RMB44.6 million and RMB54.1 million, accounting for 0.60% and 0.63% of our total operating income, respectively.

We assist Jingning Chengji Rural Bank by providing strategic guidance and employee training. We also dispatch professional staff to improve employee business skills, and share experience to innovate products and services to diversify its business.

### **(f) Operation and safety of IT systems**

We regularly upgrade our IT system and increase our investment in IT each year to support the operation and management of our businesses. For 2016 and 2017, investments in our IT system totaled RMB137.4 million and RMB586.0 million, respectively.

## Chapter 4 Management Discussion and Analysis

Our new core banking system based on the SOA-framework was formally put into operation in October 2017. Constructed according to the five-layer application framework of the “four horizontal layers and one vertical layer”, the system is able to achieve rapid and flexible product innovation, centralized management of customer information, separation of transaction and accounting, refined management and decision making, transformation of a process-oriented bank and dynamic management of system resources.

We place a high priority on business continuity and information security. We have established disaster recovery centres in Lanzhou and Xi'an and conducted periodic security drills to provide reasonable assurance of business continuity and information security in the event of disruptions at critical facilities. Our new data center, new local disaster recovery center and new core banking system have been put into use synchronously. With a floorage of about 5,400 square meters, the new data center is constructed in strict accordance with the standards of class-A machine room of the state, with partial kernel module reaching T4, the highest international standard (TIA-942). The new local disaster recovery center adopts an active-active architecture. With these two centres supporting business operation simultaneously, we have made important application systems both active locally, which has greatly improved our business continuity.

We have also implemented safeguards to maintain the confidentiality, integrity and availability of information. These safeguards include firewalls, anti-virus measures, data encryption, user authentication and authorization, desk site security, intrusion prevention and detection, filing and evaluation of important information systems, key information infrastructure protection and information system security assessment. During the Track Record Period, we did not suffer any material IT system failures.

## Chapter 4 Management Discussion and Analysis

### RISK MANAGEMENT

#### (a) Risk management of the Bank

We are primarily exposed to credit risk, liquidity risk, market risk and operational risk in our business. We are also exposed to other risks such as reputational risk, information technology risk, money-laundering risk and legal and compliance risk.

Since our inception, we have implemented comprehensive risk management strategies to enhance our risk management systems.

#### (i) Credit risk management

Credit risk is the risk of loss due to (i) failure by a debtor or counterparty to meet its contractual obligations or (ii) a decrease in credit ratings or repayment ability. Our credit risks arise mainly from loans, investments, guarantees, commitments and other on- or off-balance-sheet credit risks exposures.

We determine the direction and amount of credit extended each year based on national and regional economic development plans, market conditions and macroeconomic control measures. We also consider our asset and liability structure and trends in deposit and loan growth. We formulate annual credit policy guidelines to provide detailed guidance for extending credit to different industries, customer types and geographic regions.

In accordance with these guidelines, extension of credit in areas more susceptible to changes in macroeconomic conditions and regulatory policies (such as local government financing platforms, as well as borrowers in the real estate sector or industries involving high-pollution, high-power consumption and over-capacity) must comply with all regulatory requirements. We also encourage the extension of credit to emerging sectors, such as modern services, new urbanization construction and Internet commerce, in accordance with national policy directives. In addition, we may issue notices of adjustments to credit policy guidelines in response to changes in government policies, the economic environment and our risk preferences.

## Chapter 4 Management Discussion and Analysis

We categorize the industries in which a loan applicant operates into the following four categories and adopt a different credit policy for each industry category.

Industries	Credit Policies
Modern agriculture, tourism, education and health care industries (“active support” industries)	<ul style="list-style-type: none"><li>• prioritize credit allocation and increase credit exposure to borrowers in these industries.</li></ul>
IT, utility, warehouse and logistics, culture-related and pharmaceutical industries (“moderate support” industries)	<ul style="list-style-type: none"><li>• selectively distribute credit to borrowers in these industries.</li></ul>
Real estate, construction, metal ores mining, iron and steel, and wholesale and retail industries (“caution” industries)	<ul style="list-style-type: none"><li>• focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.</li></ul>
Steel trading, coal trading, over-capacity and commodity trading industries (“exit” industries)	<ul style="list-style-type: none"><li>• focus on minimizing risks by moderately reducing the amount of new loans to borrowers in these industries by no less than 20%, and enhancing the implementation of post-disbursement management measures.</li></ul>

We have also adopted detailed credit policies for small and micro enterprise loans and retail loans based on the type of product, customer group and investment field. We generally update these policies on an annual basis.

### (ii) Market risk management

Market risk is the risk of loss in on-balance sheet and off-balance sheet positions arising from fluctuations in market prices. We are exposed to market risks primarily through our banking book and trading book.

### (A) Interest rate risk management

Interest rate risk is the exposure of our financial condition to adverse movements in interest rates. Our primary source of interest rate risk is the repricing of on- and off-balance sheet assets and liabilities due to mismatches in maturities.

Maturity or repricing date mismatches may cause changes in net interest income due to fluctuations in prevailing interest rates. We are exposed to interest rate risk through our day-to-day lending and deposit-taking activities and our financial market operations.

## Chapter 4 Management Discussion and Analysis

We place great emphasis on analyzing the general economic situation and policies, particularly the changes in currency policies. We formulate and adjust interest rates based on studies and forecasts of interest rate trends in financial markets, in order to better control interest rate risks and reduce losses arising from interest rate fluctuations.

We manage the interest rate risk exposure of our RMB-denominated assets and liabilities on our balance sheet primarily by adjusting interest rates and optimizing the maturity profile of our assets and liabilities. We seek to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits.

We use various measures to evaluate interest rate risks arising from our banking book, including but not limited to techniques and measures such as duration analysis, sensitivity analysis, scenario analysis and stress tests, to measure our interest rate risk. For example, we regularly conduct sensitivity analysis and duration analysis on our bond business under different circumstances, to measure the potential effects on our profitability. Under unfavorable external conditions, we will also conduct special stress tests analyses on the interest rate benchmark on loans and deposits. Based on such analyses, we may adjust our terms on repricing to control interest rate risk.

## Chapter 4 Management Discussion and Analysis

The table below sets forth the results of the Bank's gap analysis based on the earlier of (i) the expected next repricing dates; and (ii) the final maturity dates for its assets and liabilities as of December 31, 2017.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017					
	Total	Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>						
Cash and deposits with the central bank	29,084.4	492.4	28,592.0	—	—	—
Deposits with banks	30,811.7	—	12,409.9	18,401.8	—	—
Financial assets held under resale agreement	9,819.9	—	9,819.9	—	—	—
Interests receivable	1,268.6	1,268.6	—	—	—	—
Loans and advances to customers	125,254.6	2,000.9	55,350.9	52,337.0	13,952.7	1,613.1
Investments	70,105.5	—	14,885.2	18,661.5	32,251.2	4,307.6
Others <sup>(1)</sup>	4,802.9	4,802.9	—	—	—	—
<b>Total assets</b>	<b>271,147.6</b>	<b>8,564.8</b>	<b>121,057.9</b>	<b>89,400.3</b>	<b>46,203.9</b>	<b>5,920.7</b>
<b>Liabilities</b>						
Borrowings from the central bank	5,290.4	—	1,787.3	3,503.1	—	—
Deposits from banks and other financial institutions	20,178.4	—	8,236.5	11,341.9	600.0	—
Placements from banks	1,050.0	—	1,000.0	—	50.0	—
Financial assets sold under repurchase agreements	5,817.5	—	5,817.5	—	—	—
Deposits from customers	192,230.6	—	106,737.8	29,377.2	56,115.6	—
Interests payable	4,305.5	4,305.5	—	—	—	—
Debt securities issued	23,960.8	—	4,991.6	11,281.2	6,696.2	991.8
Others <sup>(2)</sup>	1,701.4	1,701.4	—	—	—	—
<b>Total liabilities</b>	<b>254,534.6</b>	<b>6,006.9</b>	<b>128,570.7</b>	<b>55,503.4</b>	<b>63,461.8</b>	<b>991.8</b>
<b>Asset-liability gap</b>	<b>16,613.0</b>	<b>2,557.9</b>	<b>(7,512.8)</b>	<b>33,896.9</b>	<b>(17,257.9)</b>	<b>4,928.9</b>



## Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2016					
	Total	Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>						
Cash and deposits with the central bank	25,079.1	520.0	24,559.1	—	—	—
Deposits with banks	24,571.9	—	22,036.7	2,535.2	—	—
Financial assets held under resale agreement	498.1	—	498.1	—	—	—
Interests receivable	669.0	669.0	—	—	—	—
Loans and advances to customers	104,099.1	—	29,112.9	65,654.7	8,268.5	1,062.9
Investments	87,116.2	—	16,658.4	29,119.2	35,368.8	5,969.9
Others <sup>(1)</sup>	3,023.0	3,023.0	—	—	—	—
<b>Total assets</b>	<b>245,056.4</b>	<b>4,212.0</b>	<b>92,865.2</b>	<b>97,309.1</b>	<b>43,637.3</b>	<b>7,032.8</b>
<b>Liabilities</b>						
Borrowings from the central bank	5,692.9	—	2,267.9	3,425.0	—	—
Deposits from banks and other financial institutions	35,777.4	—	15,010.0	18,437.4	2,330.0	—
Financial assets sold under repurchase agreements	4,580.5	—	4,520.5	60.0	—	—
Deposits from customers	171,165.3	—	101,353.3	24,362.1	45,313.2	136.6
Interests payable	2,329.2	2,329.2	—	—	—	—
Debt securities issued	10,134.9	—	3,375.6	3,569.9	—	3,189.3
Others <sup>(2)</sup>	2,032.5	2,032.5	—	—	—	—
<b>Total liabilities</b>	<b>231,712.7</b>	<b>4,361.7</b>	<b>126,527.3</b>	<b>49,854.4</b>	<b>47,643.2</b>	<b>3,325.9</b>
<b>Asset-liability gap</b>	<b>13,343.7</b>	<b>(149.7)</b>	<b>(33,662.1)</b>	<b>47,454.7</b>	<b>(4,005.9)</b>	<b>3,706.9</b>

Notes:

(1) Primarily include property and equipment, goodwill and deferred tax assets.

(2) Primarily include accrued staff costs and taxes payable.

## Chapter 4 Management Discussion and Analysis

We use sensitivity analysis to measure the impact of changes in interest rates on our net profit or loss and equity. The table below sets forth the results of our interest rates sensitivity analysis based on our assets and liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31,			
	2017	2017	2016	2016
	Change in net profit	Changes in equity	Change in net profit	Changes in equity
Increase by 100 basis points	<b>174.7</b>	<b>371.6</b>	(182.5)	82.6
Decrease by 100 basis points	<b>(174.7)</b>	<b>(371.6)</b>	182.5	(82.6)

The sensitivity analysis above is based on a static interest rate risk profile of the assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by the repricing of assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each Track Record Period apply to our non-derivative financial instruments;
- At the end of each Track Record Period, an interest rate movement of 100 basis points is based on the assumption of interest rate movements over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

## Chapter 4 Management Discussion and Analysis

### **(B) Exchange rate risk management**

We are exposed to exchange rate risks primarily due to mismatches in the currency denominations of on- and off-balance sheet assets and liabilities and in the trading positions of foreign exchange transactions. We manage exchange rate risks by matching the sources and uses of funds.

We seek to keep the adverse impact of exchange rate fluctuations within an acceptable range by managing risk exposure limits and the currency structure of our assets and liabilities. In addition, we endeavor to reduce the number of transactions involving high exchange rate risks, monitor major indicators, and inspect the positions of major foreign currencies on a daily basis.

### **(iii) Operational risk management**

Operational risk refers to the risk of loss caused by incomplete internal control procedures, failures of employees and IT systems or external events. Operational risk events include internal and external fraud, safety accidents in the workplace, damage to tangible assets, failures of risk, implementation, settlement and procedure management systems relating to customers, products and operations, as well as errors or malfunctions in IT systems.

Our Board of Directors is ultimately responsible for monitoring the effectiveness of our operational risk management. It determines our operational risk appetite based on our overall business strategies, and reviews and oversees the implementation of operational risk strategies and policies.

Our senior management is responsible for coordinating operational risk management through its risk management and internal control committee.

Our risk and credit management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of our Board and senior management. Our audit department supervises and evaluates the management of operational risks and is responsible for independently examining and evaluating the appropriateness, effectiveness and efficiency of operational risk management policies, systems and procedures.

We have established a GRC system for managing internal control and operational risks. Through the system, we utilize operational risk management tools to identify, measure and monitor operational risks. The system also includes an operational risk alert module, enabling us to analyze alerts of risk events on a T+1 basis.

## Chapter 4 Management Discussion and Analysis

### (iv) Liquidity risk

#### (A) *Liquidity risk management*

Liquidity risk refers to the risk of failing to liquidate a position in a timely manner or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Factors affecting our liquidity include the term structure of our assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to our statutory deposit reserve ratio. We are exposed to liquidity risk primarily in our lending, trading and investment activities, as well as in the management of our cash flow positions.

The organizational framework of our liquidity risk management focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. As the ultimate decision-making institution for our liquidity risk management, the Board of Directors assumes ultimate responsibility for our liquidity risk management.

Senior management is responsible for liquidity management, and our assets and liabilities management committee is responsible for implementing liquidity management policies and procedures. Our supervisory committee is responsible for supervising and evaluating the implementation of liquidity risk management by the Board of Directors and senior management. The financial planning department is responsible for our daily liquidity risk management.

The objective of our liquidity risk management is, by establishing timely, reasonable and effective liquidity risk management mechanisms, to identify, measure, monitor and control liquidity risks, meet the liquidity needs of our assets, liabilities and off-balance businesses on a timely basis, and control liquidity risks at an acceptable level to maintain sustained and healthy operations.

According to the Measures for the Management of Liquidity Risks of Commercial Banks (Provisional) (effective as from October 1, 2015) issued by the CBRC, we continually improve liquidity risk management, strictly implement regulatory rules, closely monitor liquidity indicators, enhance maturity management of our cash flows, formulate emergency plans and enhance liquidity risk management and stress tests.

We manage liquidity risks with instruments such as position provisioning and monitoring, cash flow analysis, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

#### (B) *Liquidity risk analysis*

We fund our loan and investment portfolios principally through customer deposits. Deposits from customers have been, and we believe will continue to be, a stable source of funding. Customer deposits with remaining maturities of less than one year represented 70.8% and 73.4% of total deposits from customers as of December 31, 2017 and December 31, 2016, respectively.

## Chapter 4 Management Discussion and Analysis

The table below sets forth the remaining maturity of the Bank's assets and liabilities as of December 31, 2017.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017						Total
	Indefinite	Payable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>							
Cash and deposits							
with the central bank	25,070.1	4,014.3	—	—	—	—	29,084.4
Deposits with banks	—	3,121.8	9,288.1	18,401.8	—	—	30,811.7
Financial assets							
held under resale agreements	—	—	9,819.9	—	—	—	9,819.9
Financial assets at fair value through profit or loss	—	—	249.6	—	—	—	249.6
Interests receivables	—	—	621.6	579.5	67.5	—	1,268.6
Loans and advances to customers	1,630.7	370.3	18,326.8	61,298.1	33,056.3	10,572.5	125,254.7
Available-for-sale financial assets	—	—	1,811.4	5,255.3	4,255.0	1,735.5	13,057.2
Held-to-maturity investments	—	—	85.2	598.0	7,264.9	668.0	8,616.1
Debt securities classified as receivables	—	—	12,739.0	12,808.1	20,731.3	1,904.2	48,182.6
Others <sup>(1)</sup>	3,535.9	—	—	—	1,266.9	—	4,802.8
<b>Total assets</b>	<b>30,236.7</b>	<b>7,506.4</b>	<b>52,941.6</b>	<b>98,940.8</b>	<b>66,641.9</b>	<b>14,880.2</b>	<b>271,147.6</b>

## Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017						Total
	Indefinite	Payable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Liabilities</b>							
Borrowings from the central bank	—	—	1,787.3	3,503.1	—	—	5,290.4
Deposits from banks and other financial institutions	—	531.5	7,705.0	11,341.9	600.0	—	20,178.4
Placements from banks	—	—	1,000.0	—	50.0	—	1,050.0
Financial assets sold under repurchase agreements	—	—	5,817.5	—	—	—	5,817.5
Deposits from customers	—	92,713.8	14,024.0	29,377.2	56,115.6	—	192,230.6
Interests payable	—	3,684.2	167.8	312.4	141.1	—	4,305.5
Debt securities issued	—	—	4,991.6	11,281.1	6,696.2	991.9	23,960.8
Others <sup>(2)</sup>	—	623.7	1,077.7	—	—	—	1,701.4
<b>Total liabilities</b>	—	97,553.2	36,570.9	55,815.8	63,602.9	991.9	254,534.6
<b>New working capital</b>	30,236.7	(90,046.7)	16,370.8	43,125.0	3,039.1	13,888.3	26,613.0

## Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2016						Total
	Indefinite	Payable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>							
Cash and deposits							
with the central bank	21,502.2	3,576.9	—	—	—	—	25,079.1
Deposits with banks	—	8,370.2	13,666.5	2,535.2	—	—	24,571.9
Financial assets							
held under resale agreements	—	—	498.1	—	—	—	498.1
Financial assets at fair value through profit or loss	—	—	—	—	539.6	—	539.6
Interests receivables	—	15.3	372.3	281.0	0.4	—	669.0
Loans and advances							
to customers	872.6	107.0	21,116.5	43,568.7	32,861.4	5,572.9	104,099.1
Available-for-sale financial assets	827.5	—	994.9	796.9	1,679.3	1,901.0	6,199.6
Held-to-maturity investments	—	—	330.4	1,231.0	4,771.2	396.5	6,729.1
Debt securities classified as receivables	—	100.0	15,233.1	27,091.3	28,283.5	2,940.0	73,647.9
Others <sup>(1)</sup>	2,965.3	0.1	—	—	57.6	—	3,023.0
<b>Total assets</b>	<b>26,167.6</b>	<b>12,169.5</b>	<b>52,211.8</b>	<b>75,504.1</b>	<b>68,193.0</b>	<b>10,810.4</b>	<b>245,056.4</b>

## Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2016						Total
	Indefinite	Payable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Liabilities</b>							
Borrowings from the central bank	—	—	2,267.9	3,425.0	—	—	5,692.9
Deposits from banks and other financial institutions	—	522.0	14,488.0	18,437.4	2,330.0	—	35,777.4
Financial assets sold under repurchase agreements	—	—	4,520.5	60.0	—	—	4,580.5
Deposits from customers	—	80,013.8	21,339.6	24,362.1	45,313.2	136.6	171,165.3
Interests payable	—	2,121.1	105.7	102.4	—	—	2,329.2
Debt securities issued	—	—	3,375.6	3,569.9	—	3,189.4	10,134.9
Others <sup>(2)</sup>	—	505.3	1,409.5	88.3	—	29.4	2,032.5
<b>Total liabilities</b>	—	83,162.2	47,506.8	50,045.1	47,643.2	3,355.4	231,712.7
<b>New working capital</b>	26,167.6	(70,992.7)	4,705.0	25,459.0	20,549.8	7,455.0	13,343.7

Notes:

(1) Primarily include property and equipment, goodwill and deferred tax assets.

(2) Primarily include accrued staff costs and taxes payable.



## Chapter 4 Management Discussion and Analysis

### The Bank's liquidity coverage ratio

	December 31, 2017	December 31, 2016
Liquidity coverage ratio (%)	159.47	169.55

#### (v) Reputation risk management

Reputational risk represents the risk of negative publicity caused by our operations, management or other activities or external events. The general office of our head office is primarily responsible for reputational risk management, and the Board bears the ultimate responsibility for reputational risk management.

#### (vi) Legal compliance risk management

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. We have a three-tier legal and compliance risk management structure at our head office, branches and sub-branches.

#### (vii) IT risk management

IT risk refers to operational, reputational, legal and other risks arising from information technology due to natural factors, human factors, technical constraints, management defects and other factors. Our IT risk management aims to identify, measure, monitor and control IT risks through the development of effective systems.

Our IT management committee supervises and guides our IT activities. Our risk and credit management department formulates IT risk management procedures under the supervision of the Board and senior management. Our audit department audits IT risks. Our IT department and relevant business departments are responsible for the implementation of specific risk management measures, plans and proposals.

#### (viii) Anti-money laundering management

We have formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and the regulations of the PBoC.

Our Board of Directors oversees our bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of anti-money laundering rules and procedures, reviews reports from senior management on any major anti-money laundering matters and our overall money-laundering risk profile, and adjusts our anti-money laundering policies on a timely basis.

We have established anti-money laundering steering groups at our head office, branches and sub-branches.

## Chapter 4 Management Discussion and Analysis

### (ix) Internal audits

We believe internal audits are essential to our stable operations and achievement of business objectives. We conduct internal audits to monitor the compliance with laws and regulations and the implementation of our internal policies and procedures, with the objective of controlling risks at an acceptable level.

We also aim to conduct effective risk management as well as optimize internal control compliance and our corporate governance structure, in an effort to improve our operations. We adhere to the principles of independence, importance, prudence, objectiveness and relevance.

We have adopted an independent and vertical internal audit management system, consisting of the audit committee of our Board of Directors, the audit committee of our Board of Supervisors and the audit department of our head office.

### ANALYSIS ON CAPITAL ADEQUACY RATIO

We are required to comply with the CBRC's capital adequacy ratio requirements. Since January 1, 2015, we have calculated and disclosed capital adequacy ratios in accordance with the Capital Administrative Measures, which required China's commercial banks (except systematically important banks) to maintain (i) minimum capital adequacy ratios of 8.9%, 9.3%, 9.7% and 10.1%, (ii) minimum tier-one capital adequacy ratios of 6.9%, 7.3%, 7.7% and 8.7%, and (iii) minimum core tier-one capital adequacy ratios of 5.9%, 6.3%, 6.7% and 7.1%, as of December 31, 2014, 2015, 2016 and 2017, respectively.

## Chapter 4 Management Discussion and Analysis

The table below sets forth certain information relating to our capital adequacy ratio as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	December 31, 2017	December 31, 2016
<b>Core capital</b>		
Paid-up capital	7,526.0	7,526.0
Qualifying portion of capital reserve	1,767.7	1,765.2
Defined benefit plan reserve	(0.7)	(4.2)
Investment revaluation reserve	(125.3)	(27.1)
Surplus reserve	893.0	557.7
General risk reserve	3,631.6	3,226.1
Retained earnings	2,889.0	271.5
Qualifying portion of non-controlling interest	17.4	18.8
Core tier-one capital deductions <sup>(1)</sup>	(32.5)	(54.1)
<b>Net core tier-one capital</b>	<b>16,566.2</b>	<b>13,279.9</b>
Other tier-one capital <sup>(2)</sup>	2.3	1.7
<b>Net tier-one capital</b>	<b>16,568.5</b>	<b>13,281.6</b>
<b>Tier-two capital</b>		
Instruments issued and share premium	3,191.9	3,189.3
Surplus reserve for loan impairment	2,187.1	1,786.0
Eligible portion of non-controlling interest	4.6	4.0
<b>Net capital base</b>	<b>21,952.1</b>	<b>18,260.9</b>
<b>Total risk-weighted assets</b>	<b>190,251.6</b>	<b>154,753.9</b>
<b>Core tier-one capital adequacy ratio (%)</b>	<b>8.71%</b>	<b>8.58%</b>
<b>Tier-one capital adequacy ratio (%)</b>	<b>8.71%</b>	<b>8.58%</b>
<b>Capital adequacy ratio (%)</b>	<b>11.54%</b>	<b>11.80%</b>

Notes:

(1) Primarily include other intangible assets excluding land use rights, goodwill and deferred tax recognized as tax losses.

(2) Primarily includes tier-one capital instruments such as preference shares and their premiums.

# Chapter 5 Report of the Board of Directors

The Board is pleased to present the Report of the Board of Directors together with the audited financial statements of the Group for the year ended December 31, 2017. All relevant sections of this annual report referred to in this Report of the Board of Directors form part of this Report of the Board of Directors. Unless otherwise specified, the financial data disclosed in this report are prepared in accordance with the IFRS.

## I. Business Review

We are the only provincial city commercial banks in Gansu Province of China, and have established a comprehensive business network across Gansu province. The Group is engaged in a range of banking services and related financial services. The information on business review of the Group for the year ended December 31, 2017 is set out in “Management Discussion and Analysis” of this annual report.

## II. Issuance of H Shares and Listing on the Hong Kong Stock Exchange

The H Shares of the Bank were listed on the Hong Kong Stock Exchange on January 18, 2018. The offer price was determined at HK\$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The global offering of the Bank comprised 2,212,000,000 H Shares. Four cornerstone investors subscribed for 1,163,152,000 H Shares in total issued by the Bank. The net proceeds from global offering received by the Bank, after deducting the underwriting fees, commissions, and estimated expenses borne by us in relation to the global offering and assuming the over-allotment option was not exercised, are approximately HK\$5,743.18 million.

On February 5, 2018, the Joint Representatives (as defined in the prospectus of Global Offering of the Bank's: H Shares) (on behalf of the international underwriters) fully exercised the over-allotment option in respect of an aggregate of 331,800,000 H Shares, representing in aggregate 15% of the offer shares initially offered under the global offering before any exercise of the over-allotment option, to cover over-allocations in the international offering. The over-allotment shares were issued and allotted at HK\$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). Listing of and dealing in the over-allotment shares were commenced on the Main Board of the Hong Kong Stock Exchange on February 8, 2018. The additional net proceeds from the issue of the over-allotment shares by the Bank, after deduction of underwriting commissions, brokerage, transaction levy and trading fee, was approximately HK\$872.84 million.

We intend to use the net proceeds that we will receive from the global offering to strengthen our capital base to support the ongoing growth of our business. As of the date of this annual report, the Bank has not used the proceeds from the global offering.

## Chapter 5 Report of the Board of Directors

### III. Relationship between the Bank and Its Employees

We have a young and highly educated team of employees. Our employees participate in employee benefit plans, such as pension insurance, corporate annuity funds, housing provident funds, work related injury insurance, medical insurance, unemployment insurance and maternity insurance. We conduct performance evaluations of employees on an annual basis to provide feedback based on the evaluations. Remuneration for full-time employees typically consists of a base salary and performance-based compensation. We determine performance-based compensation at the end of each quarter and year based on the employee's work performance and our financial results.

We focus on employee career development and provide training programs for employees in different business lines. We have built a team of internal training providers under our human resources department.

We have established a labor union in accordance with PRC laws and regulations. We believe that we have maintained a good working relationship with our employees. As of the Latest Practicable Date, we had not experienced any labor strikes or other labor disturbances that materially affected our operations or public image.

### IV. Relationship between the Bank and Its Customers

#### Retail Customers

In respect of retail banking, the Bank offers its retail customers a wide range of products and services, including loans, deposits, debit card services and fee- and commission-based products and services. We categorize retail customers into regular customers (with average financial asset balances of under RMB50,000), wealth management customers (with average financial asset balances of RMB50,000 or above but less than RMB200,000), wealthy customers (with average financial asset balances of RMB200,000 or above but less than RMB3.0 million) and private banking customers (with average financial asset balances of RMB3.0 million or above). As of December 31, 2017, we had 115,048 wealthy customers and 920 private banking customers. This sizable retail customer base provides a stable source of deposits and opportunities to cross-sell and develop our retail business.

#### Corporate Customers

We offer corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee- and commission-based products and services. Our corporate customers primarily include government agencies, public organizations, SOEs, private enterprises and foreign-invested enterprises. We are committed to serving local customers with a focus on small and micro enterprises. In addition, we are committed to seeking to develop long-term relationships with customers by closely monitoring their financial needs and offering tailored financial solutions.

## Chapter 5 Report of the Board of Directors

### V. Profits and Dividend

The Group's revenue for the year ended December 31, 2017 and the Group's financial position as of the same date are set out in the consolidated financial statements of this annual report.

According to the resolution passed by the Shareholders at the 2016 annual general meeting on June 1, 2017 and to give consideration to the respective benefits of holders of domestic shares and H Shares, the accumulated undistributed profits shall be distributed to both new and old shareholders as per their shareholding after the issuance of H Shares is completed and the dividend to be allocated and approved by the shareholders' general meeting before the Global Offering (if applicable) is deducted.

Considering the shareholders' interests, our future development and other factors and in accordance with the requirements of relevant laws and regulations and the Articles of Association of the Bank, the Board proposed the 2017 profit distribution plan as follows:

- (1) to appropriate RMB335.3 million, being 10% of net profit realized this year to statutory surplus reserve.
- (2) to appropriate RMB400.2 million, being 1.5% of the risk-bearing assets to the general risk reserve according to the Administrative Measures for the Provisioning for Reserves of Financial Institutions [2012] No. 20 (《金融企業準備金計提管理辦法》([2012]20號)) promulgated by the Ministry of Finance of the People's Republic of China.
- (3) to appropriate RMB335.3 million to surplus reserve fund.
- (4) not to distribute cash dividends. In light of the Bank's future business development which needs sufficient capital to support, the Bank proposed not to distribute cash dividends to all shareholders in 2017.
- (5) the remaining retained earnings of the parent company of RMB2.547 billion to be carried forward to the following year.

The above profit distribution plan remains to be submitted to the 2017 annual general meeting of the Bank for consideration and approval.

## Chapter 5 Report of the Board of Directors

The cash dividends and the cash dividends attributable to profits for the last three years of the Bank are set out below:

(Expressed in millions of RMB, unless otherwise stated)	2017	2016	2015
Cash dividends (tax inclusive)	—	—	602.1
Cash dividends attributable to profit for the year (%)	—	—	46.4

For the years ended December 31, 2014, 2015 and 2016, the Bank declared and distributed cash dividend of nil, RMB602.1 million and nil respectively, representing RMB0, RMB0.08 (tax inclusive) and RMB0 per share.

### VI. Annual General Meeting and Book Closure Date

The 2017 annual general meeting will be held on Friday, June 1, 2018. In order to determine the holders of H Shares who are eligible to attend the 2017 annual general meeting, the H Share register of the Bank will be closed from Tuesday, May 1, 2018 to Friday, June 1, 2018 (both days inclusive), during which period no transfer of H Shares will be registered.

In order to be eligible for attending the 2017 annual general meeting, share certificates accompanied by transfer documents must be lodged with the Bank's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, April 30, 2018. Holders of H Shares of the Bank whose names appear on the register of members maintained at Computershare Hong Kong Investor Services Limited on Friday, June 1, 2018 are entitled to attend the 2017 annual general meeting.

A Shareholder or his/her proxy should present proof of identity when attending the 2017 annual general meeting. If a Shareholder is a legal person, its legal representative or any other person authorized by the board of directors or other governing body of such Shareholder may attend the 2017 annual general meeting by providing a copy of the resolution of the board of directors or other governing body of such Shareholder appointing such person to attend the meeting.

### VII. Changes in the Reserves

Details of the Group's changes in the reserves and the distributable profit reserve for the year ended December 31, 2017 are set out in "Consolidated Statement of Changes in Equity" of this annual report. The distributable reserves as of December 31, 2017 were RMB2,889,067,000.

### VIII. Summary of Financial Information

The summary of the operating results for the year ended December 31, 2017 and assets and liabilities as of December 31, 2017 of the Group is set out in "Financial Highlights" of this annual report.

## Chapter 5 Report of the Board of Directors

### IX. Donations

For the year ended December 31, 2017, the Group made charity and other donation of RMB2,164,000 in aggregate.

### X. Property and Equipment

Details of the changes in property and equipment of the Group for the year ended December 31, 2017 are set out in note 28 to the consolidated financial statements of this annual report.

### XI. Retirement Benefits

Details of the retirement benefits provided by the Group to employees are set out in notes 3 and 37 to the consolidated financial statements of this annual report.

### XII. Substantial Shareholders

Details of the substantial shareholders as of the Latest Practicable Date are set out in “Changes in Share Capital and Particulars of Shareholders – II. Particulars of Shareholders – (II) Interests and Short Positions of Substantial Shareholders and Other Persons” of this annual report.

### XIII. Purchase, Sale and Redemption of Listed Securities of the Bank

The H Shares of the Bank were listed on the Main Board of Hong Kong Stock Exchange on January 18, 2018. The over-allotment option was fully exercised on February 5, 2018. The over-allotment shares were listed on the Main Board of the Hong Kong Stock Exchange on February 8, 2018. Save as disclosed above, the Bank and any of its subsidiaries had not purchased, sold or redeemed any of the Bank’s listed securities from the Listing Date (January 18, 2018) to the date of this annual report.

### XIV. Pre-emptive Rights

There are no provisions in the Articles of Association and the relevant PRC laws for granting pre-emptive rights to the Shareholders.

### XV. Major Customers

As of December 31, 2017, the Group’s five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits from customers and total loans and advances to customers.



## Chapter 5 Report of the Board of Directors

### XVI. Share Capital

Please refer to the section headed “Changes in Share Capital and Particulars of Shareholders” for details of the share capital of the Bank.

### XVII. Directors of the Bank

As of the date of this annual report, the Board consists of 11 Directors, including:

- Mr. Li Xin (Chairman, Executive Director)
- Mr. Lei Tie (Executive Director)
- Ms. Wu Changhong (Non-executive Director)
- Ms. Zhang Hongxia (Non-executive Director)
- Mr. Li Hui (Non-executive Director)
- Mr. Guo Jirong (Non-executive Director)
- Mr. Zhang Youda (Non-executive Director)
- Mr. Chen Aiguo (Independent Non-executive Director)
- Ms. Tang Xiuli (Independent Non-executive Director)
- Ms. Luo Mei (Independent Non-executive Director)
- Mr. Wong Sincere (Independent Non-executive Director)

According to the Articles of Association of the Bank, the Board of Directors shall consist of twelve Directors. Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer. The Board of Directors had eleven Directors as of the date of this annual report. The Bank is in the process of selecting the twelfth Director in accordance with the Articles of Association, and will make the appointment as soon as practicable. As advised by Grandall Law Firm (Shanghai), the Bank’s PRC legal advisor, although the actual number of the Directors is lower than that set forth in the Articles of Association, the Board of Directors is still able to function properly. Grandall Law Firm (Shanghai) is of the view that the composition of the Board of Directors will not result in any violation of applicable PRC laws and regulations. The Bank will make announcement(s) in relation to the appointment of the twelfth Director in due course in accordance with the Hong Kong Listing Rules.

## Chapter 5 Report of the Board of Directors

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

### **XVIII. Confirmation of Independence by the Independent Non-Executive Directors**

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

### **XIX. Interests and Short Positions of Directors, Supervisors and Chief Executive in Shares, Underlying Shares and Debentures of the Bank and Its Associated Corporations**

During the Reporting Period, as the shares of the Bank were not listed on the Hong Kong Stock Exchange, the disclosure requirements under relevant laws and regulations of Hong Kong, including Divisions 7 and 8 of Part XV and section 352 of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules (the “Model Code”), were not yet applicable to the Bank and its Directors, Supervisors and chief executive.

On January 18, 2018, the H Shares of the Bank were listed on the Main Board of the Hong Kong Stock Exchange. As of the Latest Practical Date, the interests of the Directors, Supervisors and chief executive of the Bank in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code or in accordance with Divisions 7 and 8 of Part XV under the SFO are as follows:

## Chapter 5 Report of the Board of Directors

Name	Position in the Bank	Class of Shares	Nature of Interest	Number of Shares <sup>(2)</sup>	Percentage of Domestic Shares of the Bank (%)	Percentage of the Total Share Capital of the Bank (%)
Mr. Li Xin	Chairman, Executive Director	Domestic shares	Beneficial owner	300,000(L)	0.004	0.003
Mr. Lei Tie	Executive Director, Vice President	Domestic shares	Beneficial owner	300,000(L)	0.004	0.003
Mr. Yang Qian	Chief Supervisor	Domestic shares	Beneficial owner	300,000(L)	0.004	0.003
Mr. Xu Yongfeng	Supervisor	Domestic shares	Beneficial owner	225,514(L)	0.003	0.002
Mr. Luo Zhenxia	Supervisor	Domestic shares	Beneficial owner	205,711(L)	0.003	0.002
Mr. Li Yongjun <sup>(1)</sup>	Supervisor	Domestic shares	Interest in the controlled corporation <sup>(1)</sup>	239,326,800(L)	3.180	2.377

Notes:

(1) Mr. Li Yongjun (a Supervisor) and his spouse collectively hold 2.0% equity interest in Yong Xin Hua Holdings Co., Ltd. (永新華控股有限公司). Gansu Yong Xin Construction and Installation Engineering Company Limited (甘肅永新建築安裝工程有限公司) and Gansu Huanghai Electronic and Mechanical Devices Engineering Company Limited (甘肅黃海電子機電設備工程有限公司) hold 33.0% and 65.0% equity interest in Yong Xin Hua Holdings Co., Ltd., respectively. Mr. Li Yongjun and his spouse collectively hold 100.0% equity interest in Gansu Yong Xin Construction and Installation Engineering Company Limited and Gansu Huanghai Electronic and Mechanical Devices Engineering Company Limited. Yong Xin Hua Holdings Co., Ltd. held 239,326,800 Domestic Shares immediately as at the Latest Practicable Date. Pursuant to the SFO, Mr. Li Yongjun is deemed to be interested in the Shares held by Yong Xin Hua Holdings Co., Ltd.

(2) L represents long position.

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

## Chapter 5 Report of the Board of Directors

### XX. Arrangements to Purchase Shares or Debentures

At no time during the Reporting Period and up to the date of this annual report was the Bank or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors and Supervisors (including their spouses and children under the age of eighteen) of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

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

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

### XXII. Management Contract

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

### XXIII. Interests of Directors and Supervisors in Competing Businesses

None of the Directors and Supervisors has any interest in a business that competes, or is likely to compete, either directly or indirectly, with the business of the Bank under Rule 8.10(2) of the Hong Kong Listing Rules.

### XXIV. Corporate Governance

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

### XXV. Connected Transactions

During the Reporting Period, the Shares of the Bank were not listed on the Hong Kong Stock Exchange and therefore, the connected transaction rules under the Hong Kong Listing Rules were not yet applicable to the Bank.

The continuing connected transactions of the Bank are set forth below:

#### Exempt Continuing Connected Transactions

##### 1. Commercial banking services and products provided in the ordinary and usual course of business

The Bank is a commercial bank incorporated in the PRC under the supervision of the CBRC and the PBoC. It provides commercial banking services and products in the ordinary and usual course of business to the public in China, including the Bank's connected persons (such as the Directors, the Supervisors and/or their respective associates). Details of the connected transactions between the Bank and its connected persons are set out below. These transactions are entered into in the ordinary and usual course of business of the Bank on normal commercial terms.

##### *(1). Extending loans and other credit facilities to connected persons*

The Bank provides loans and other credit facilities to certain connected persons of the Bank in the ordinary and usual course of business on normal commercial terms and with reference to prevailing market rates (including providing loans indirectly to connected persons of the Bank through trust schemes or asset management schemes established by third parties).

The above loans and other credit facilities provided by the Bank to the connected persons are entered into in the ordinary and usual course of business on normal commercial terms and with reference to prevailing market interest rates. Accordingly, pursuant to Rule 14A.87 (1) of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions (i.e. financial assistance provided by the Bank to connected persons in the ordinary and usual course of business on normal commercial terms), and are therefore fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

## Chapter 5 Report of the Board of Directors

### **(2). Taking deposits from connected persons**

The Bank takes deposits from certain connected persons in the ordinary and usual course of business with normal deposit interest rates and on normal commercial terms.

The deposits are placed by the Bank's connected persons with the Bank on normal commercial terms, with reference to prevailing market rates. Accordingly, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions (i.e. financial assistance received by the Bank from connected persons which are made by connected persons on normal commercial terms, and are not secured by the Bank's assets) and are therefore fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

### **(3). Other banking services and products**

The Bank provides various commercial banking services and products (such as bank acceptance bills, debit card services) to certain connected persons in the ordinary and usual course of business on normal commercial terms and conditions at normal fee standards.

These continuing connected transactions are the provision of various commercial banking services and products to the Bank's connected persons in the ordinary and usual course of business on normal commercial terms similar to or no more favorable than those offered to independent third parties and are expected to constitute *de minimis* transactions under Chapter 14A of the Hong Kong Listing Rules. Accordingly, pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions and are therefore fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

## **2. Property leasing agreement with a connected person**

The Bank entered into a property leasing agreement with JISCO Zhongtian Property Co., Ltd. (酒鋼集團中天置業有限公司) (an associate of Gansu State-owned Assets Investment, a substantial shareholder of the Bank) ("Zhongtian Property"). Pursuant to the agreement, Zhongtian Property leased a property located in Jiayuguan, Gansu province to the Bank as the Bank's business office, with a leasing term from January 1, 2017 to December 31, 2017 and at an annual rental of RMB401,568. In December 2017, the Bank entered into a new property leasing agreement with Zhongtian Property in respect of the same property with a leasing term from January 1, 2018 to December 31, 2018 and at an unchanged annual rental of RMB401,568. The transaction is conducted on normal commercial terms.

## Chapter 5 Report of the Board of Directors

Gansu State-owned Assets Investment, a substantial shareholder of the Bank, holds 31.91% equity interest in Jiuquan Iron & Steel, while Zhongtian Property is a subsidiary of Jiuquan Iron & Steel. Zhongtian Property is therefore a connected person of the Bank. As the highest applicable percentage ratios of the above transaction calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are expected to be, on an annual basis, less than 0.1%, the continuing connected transaction contemplated under the above property leasing agreement constitutes *de minimis* transaction, and therefore is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

### 3. Property management agreement with a connected person

The Bank entered into a property management agreement with Lanzhou Changhong Property Management Co., Ltd. (蘭州長虹物業管理有限公司) (an associate of Gansu State-owned Assets Investment, a substantial shareholder of the Bank) ("Changhong Property Management"). Pursuant to this agreement, Changhong Property Management agreed to provide property management services to the Bank for its office space located in the Bank of Gansu Tower situated at Chengguang District of Lanzhou, Gansu province, with a term from August 1, 2017 to July 31, 2020. In view of establishing a long-term business relationship, the Bank and Changhong Property Management agreed that Changhong Property Management will not charge relevant property management fees in respect of the property management services it provides to the Bank.

Gansu State-owned Assets Investment, a substantial shareholder of the Bank, holds 31.91% equity interest in Jiuquan Iron & Steel, which holds 100% equity interest in JISCO Lanzhou Judong Real Estate Development Co., Ltd. JISCO Lanzhou Judong Real Estate Development Co., Ltd. holds 100% equity interest in Changhong Property Management. Therefore, Changhong Property Management is a connected person of the Bank. As the highest applicable percentage ratios of the above transaction calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are expected to be, on an annual basis, less than 0.1%, the continuing connected transaction contemplated under the above property management services agreement constitutes *de minimis* transaction, and therefore is exempt from all the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

### 4. Trust arrangement with a connected person

In the ordinary and usual course of business, the Bank and Everbright Xinglong Trust Co., Ltd. (光大興隴信託有限責任公司) ("Everbright Xinglong Trust") enter into a number of fund trust agreements ("Everbright Xinglong Trust Agreements"). As the settlor of the trust schemes, the Bank uses its own funds as the trust property, while Everbright Xinglong Trust, serving as the trustee of the trust schemes, sets up specific service management trust schemes. The Bank designates the end users of the trust property and Everbright Xinglong Trust in turn enters into relevant agreements (the "Relevant Agreements", such as trust loan agreements) with the end users.

Gansu State-owned Assets Investment, a substantial shareholder of the Bank, holds 41.58% equity interest in Everbright Xinglong Trust. Everbright Xinglong Trust is therefore a connected person of the Bank.

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The Bank and Everbright Xinglong Trust agreed in the Everbright Xinglong Trust Agreements on the expected annualized rate of investment return or the method of determination of the investment return during the term of trusts. These returns are derived from the interest on trust loans or returns paid by the end-users of the trust property to Everbright Xinglong Trust under the Relevant Agreements. As the trustee of the trust schemes, Everbright Xinglong Trust is entitled to receive trust fees from the Bank (as the settlor of the trust schemes) which is a fixed amount agreed upon between Everbright Xinglong Trust and the Bank or calculated with reference to the principal balance of the trust property multiplied by the fixed annualized trust fee rate.

The terms of the transactions contemplated by the Everbright Xinglong Trust Agreements are on normal commercial terms and no more favorable than those offered to other independent third parties. As the highest applicable percentage ratios calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are expected to be, on an annual basis, less than 0.1%, the continuing connected transactions contemplated by the Everbright Xinglong Trust Agreements constitute *de minimis* transactions, and therefore are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

### ***Related Party Transactions Referred to in the Consolidated Financial Statements and Connected Transactions under the Hong Kong Listing Rules***

Save as disclosed above, there is no related party transaction or continuing related party transaction referred to in Note 47 to the consolidated financial statements that falls into the category of connected transactions or continuing connected transactions that need to be disclosed under the Hong Kong Listing Rules. The Bank has complied with the requirements under Chapter 14A of the Hong Kong Listing Rules with respect to the connected transactions and continuing connected transactions of the Bank.

## **XXVI. Remuneration Policies for Directors, Supervisors and Senior Management Members**

The Bank endeavors to improve its performance evaluation system for Directors, Supervisors and senior management members. The remuneration system for the Directors, Supervisors and senior management members of the Bank adheres to the principle of unifying responsibilities, authorities and interests, combing incentives and restraints and focusing on both short-term and long-term incentives. The Bank insists on conducting remuneration system reform complementary with relevant reforms and promoting the marketization, monetization and standardization of the income allocation of the Bank's senior management.

The remuneration provided by the Bank for its executive Directors, employee representative Supervisors and senior management who are also the Bank's employees concurrently include salaries, discretionary bonus, social security plans,



## Chapter 5 Report of the Board of Directors

housing provident fund plans and other benefits. The remuneration provided by the Bank for its non-executive Directors, independent non-executive Directors and other Supervisors are determined by their responsibilities. Please refer to note 12 to the consolidated financial statements in this annual report for the details of the remuneration of the Directors and Supervisors.

The Bank strictly adheres to relevant regulatory provisions when making remuneration payments. The Bank assesses senior management members and offers remuneration to them based on the results of the assessment.

### XXVII. Public Float

When it applied for the listing of its H Shares, the Bank applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted the Bank a waiver that the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules be reduced and the minimum percentage of the H Shares from time to time held by the public to be the higher of (i) 22.72%, the percentage of H Shares to be held by the public immediately after the completion of the global offering (assuming the over-allotment option is not exercised) and (ii) such percentage of H Shares to be held by the public after the exercise of the over-allotment option, provided that the higher of (i) and (ii) above is below the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Hong Kong Listing Rules.

Immediately after the full exercise of the over-allotment option and as of the Latest Practicable Date, the number of H Shares in public hands represents approximately 25.26% of the total issued share capital of the Bank, which satisfies the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules.

### XXVIII. Tax Relief

According to the Bank's profit distribution plan for 2017 which is still subject to the 2017 annual general meeting for consideration and approval, the Bank does not intend to distribute dividend for 2017. Therefore, the content associated with tax relief in this section is only for general reference of Shareholders of the Bank.

#### (1) Withholding and Payment of Enterprise Income Tax for Non-resident Enterprise Shareholders

Pursuant to the *Enterprise Income Tax Law of the People's Republic of China* (《中華人民共和國企業所得稅法》) and its implementation rules and the relevant regulations, the Bank has the obligation to withhold and pay enterprise income tax at a tax rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the H Share register in the distribution of dividend. As any shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders, the dividends received shall be subject to the withholding of enterprise income tax.

## Chapter 5 Report of the Board of Directors

Upon receipt of such dividends, a non-resident enterprise shareholder may apply to the competent tax authorities for relevant treatment under the tax treaties (arrangements) in person or through a proxy or a withholding agent, and provide evidence in support of its status as an actual beneficial owner as defined in the tax treaties (arrangements). Upon verification by the competent tax authorities, the difference between the tax levied and the amount of tax payable as calculated at the tax rate under the tax treaties (arrangements) will be refunded.

### (2) Withholding and Payment of Individual Income Tax for Individual Overseas Resident Shareholders

According to the *Individual Income Tax Law of the People's Republic of China* (《中華人民共和國個人所得稅法》) and its implementation rules and the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (Announcement of the State Administration of Taxation 2015 No.60) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》(國家稅務總局公告 2015 年第 60 號)) (the "Tax Convention Announcement"), the Bank has the obligation to withhold and pay individual income tax on behalf of the individual shareholders whose names appear on the H Share register ("Individual H Shareholder(s)") in the distribution of final dividend for 2017. However, Individual H Shareholders are entitled to the relevant favorable tax treatments pursuant to the provisions in the tax treaties between the countries (regions) in which they are domiciled and the PRC, and the tax arrangements between the PRC and Hong Kong (or Macau). As such, the Bank will withhold and pay individual income tax on behalf of the Individual H Shareholders in accordance with the following arrangements:

- for Individual H Shareholders receiving dividends who are Hong Kong or Macau residents or citizens from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% in the distribution of final dividend;
- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Bank will withhold and pay individual income tax at the rate of 10% in the distribution of final dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Bank will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Convention Announcement. Qualified shareholders shall submit in time a letter of entrustment and all application materials as required under the Tax Convention Announcement to the Bank's H share registrar, Computershare Hong Kong Investor Services Limited. The Bank will then submit the above documents to competent tax authorities and, after their examination and approval, the Bank will assist in refunding the excess amount of tax withheld and paid;
- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Bank will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty in the distribution of final dividend;

## Chapter 5 Report of the Board of Directors

- for Individual H shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of 20% or without tax treaties with the PRC or under other circumstances, the Bank will withhold and pay the individual income tax at the rate of 20% in the distribution of final dividend.

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by the Bank.

### XXIX. Auditors

Shinewing Certified Public Accountants LLP was engaged by the Bank as the auditor for the financial statements of the Bank prepared under the PRC GAAP for 2017. SHINEWING (HK) CPA Limited was engaged by the Bank as the auditor for financial statements of the Bank prepared under the IFRS for 2017.

Ruihua Certified Public Accountants was once engaged by the Bank as its auditor for 2015 and issued auditing report in accordance with the PRC GAAP. During its application for listing of H Shares on the Hong Kong Stock Exchange, the Bank engaged Shinewing Certified Public Accountants LLP as its domestic auditor and SHINEWING (HK) CPA Limited its overseas auditor. In light of the continuity of the auditing work, the Bank no longer engaged Ruihua Certified Public Accountants as its auditor. Ruihua Certified Public Accountants confirmed that there was no matter related to its resignation that needs to be brought to the attention of the shareholders of the Bank, and there was no disagreement or unresolved matter between the Bank and Ruihua Certified Public Accountants.

Please also refer to the section headed “Corporate Governance Report — II. Corporate Governance — (IX) External Auditors and Remuneration of Auditors” in this annual report for the information on the auditors’ remuneration.

### XXX. Permitted Indemnity Provision

The Bank has arranged appropriate insurance covering possible legal liabilities of the Directors and the senior management arising from corporate activities to third parties.

### XXXI. Major Risks and Uncertainties

Major risks and uncertainties faced by the Group include credit risk, operational risk, market risk and liquidity risk. By promoting comprehensive risk management, continuously refining the systems, enriching operating means and improving technologies, the Group has effectively enhanced its risk management capability. Please refer to the sections headed “Management Discussion and Analysis — Risk Management” and “Risk Management, Internal Control and Internal Audit” in this annual report.

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### XXXII. Future Development of Business

Please refer to the sections headed “Management Discussion and Analysis – Environment and Prospect” and “Management Discussion and Analysis – Development Strategy” in this annual report for further details.

### XXXIII. Key Financial Performance Indicators

As of December 31, 2017, according to the financial data prepared under the IFRS, the total assets of the Group amounted to RMB271,147.6 million, representing a year-on-year increase of 10.6%; total loans and advances to customers amounted to RMB130,283.6 million, representing a year-on-year increase of 20.8%; the non-performing loan ratio was 1.74%; total deposits from customers amounted to RMB192,230.6 million, representing a year-on-year increase of 12.3%; the operating income of the Group amounted to RMB8,052.5 million, representing a year-on-year increase of 15.5%; and the net profit of the Group amounted to RMB3,363.7 million, representing a year-on-year increase of 75.1%. As of December 31, 2017, the Group’s capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio was 11.54%, 8.71% and 8.71%, respectively.

### XXXIV. Environmental Protection Policy and Implementation

The Group places great emphasis on its own environmental and social performance by integrating the banking operation and management with social responsibilities, actively supporting environmental friendly industries and environmental protection. In May 2017, we issued the first “green” financial bonds in Gansu, which totaled RMB1,000 million in the national interbank bond market. The proceeds of these bonds will be used to promote the development of the green and environmental friendly industry projects. In addition, we established our Green Finance Department in June 2017, which focuses on “green finance”.

In line with national policies to save energy costs, the Bank has implemented a series of measures, including: (i) regulating office room temperature; (ii) strengthening management of usage of the Bank’s business vehicles and encouraging the use of public transport for long-distance business trips; and (iii) encouraging the turning off of lights and electronic appliances after work.

### XXXV. Environmental, Social and Governance Report

In 2017, the Bank has complied with the “comply or explain” provisions set forth in the Environmental, Social and Governance Reporting Guide. For details, please refer to the 2017 Environmental, Social and Governance Report of the Bank to be published in accordance with the Hong Kong Listing Rules.

## Chapter 5 Report of the Board of Directors

For details of the governance of the Bank, please refer to “Corporate Governance Report” of this annual report. The Bank continuously refined its internal control and management system to make the internal control system more comprehensive, practicable and efficient. The rules and systems of the Bank were further improved to ensure that the departments of the Bank could duly discharge their respective duties and responsibilities.

### XXXVI. Compliance with Laws and Regulations

The Board pays close attention to the policies and regulations in relation to compliance with laws and regulatory requirements. As of December 31, 2017, to the best knowledge of the Board, the Group has complied in all material respects with all applicable laws and regulations which could materially affect the Group.

#### Legal and compliance risk management of the Bank

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. We have a three-tier legal and compliance risk management structure at our head office, branches and subbranches.

The legal and compliance department at our head office is in charge of managing our overall legal and compliance risks. In addition, we have established internal control and compliance positions at our sub-branches to manage legal and compliance risks.

Our risk and internal control management committee supervises and leads our legal and compliance work. We systematically manage our internal control compliance and legal affairs by building a management system for internal control compliance and operational risks. We manage legal and compliance risks primarily through the following measures:

- formulating our rules, systems and annual plans, and leading and urging the formulation and amendment thereof;
- enhancing the compliance review mechanism to identify and evaluate compliance risks associated with our business activities;
- uniformly managing standard contracts and other legal documents;
- managing and tracking our legal proceedings;
- formulating an annual compliance management plan, stipulating the focus and plans for annual compliance work;

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- managing related parties and related party transactions to control related party transactions in advance;
- optimizing the management mechanism for rectifications upon inspection, and enhancing the supervision and management of our rectifications upon inspection;
- closely monitoring regulatory changes and reporting compliance information and risks to our senior management and the relevant business lines; and
- enhancing internal training on legal and compliance, and issuing compliance alerts and reminders to employees through compliance proposals and internal publications.

### Anti-money laundering management

We have formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and other applicable regulations of the PBoC.

Our Board of Directors oversees our bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of anti-money laundering rules and procedures, reviews reports from senior management on any major anti-money laundering matters and our overall money-laundering risk profile, and adjusts our anti-money laundering policies on a timely basis.

We have established anti-money laundering steering groups at our head office, branches and sub-branches. The anti-money laundering steering group at our head office leads and coordinates our bank-wide anti-money laundering efforts. It is primarily responsible for:

- formulating anti-money laundering plans;
- reviewing rules and internal controls regarding anti-money laundering;
- ensuring the effective implementation of internal controls for anti-money laundering;
- analyzing significant issues relating to anti-money laundering;
- formulating solutions and responsive measures; and
- reporting to our Board of Directors.

The group is led by the chairman of our Board, and consists of responsible persons from our accounting operation department, financial planning department, risk and credit management department, corporate banking department, international banking department, personal banking department, financial service center of our retail banking department and IT department.

## Chapter 5 Report of the Board of Directors

We conduct due diligence on our customers in accordance with anti-money laundering laws and regulations. We report large-scale and suspicious transactions to the China Anti-Money Laundering Monitoring and Analyzing Center on a daily basis through our anti-money laundering management system. We also report major reasonably suspected money laundering activities to the local branch of the PBoC and cooperate with their investigations, and report to local public security units when necessary.

We provide bank-wide anti-money laundering training on a regular basis based on employees' position and seniority. We also require all new employees to participate in mandatory anti-money laundering training before commencing employment.

### XXXVII. License Requirements

As of the date of this annual report, the Bank and its sole subsidiary Jingning Chengji Rural Bank have obtained necessary business qualifications required for their business operations.

### XXXVIII. Legal Proceedings

The Bank and its sole subsidiary Jingning Chengji Rural Bank are involved in legal disputes in the ordinary course of business, which primarily include actions against borrowers for the recovery of loans. As of the Latest Practicable Date, none of the Bank or any of its subsidiary were involved in any material pending lawsuits as a defendant.

During the Reporting Period and up to the Latest Practicable Date, none of the Bank's Directors, Supervisors, or senior management was involved in any material litigation or arbitration, nor had any of them been subject to any administrative penalty.

### XXXIX. Issuance of Bonds

For the year ended December 31, 2017, the Bank has issued debt securities during the Reporting Period to supplement its capital, the details of which are set out as follows:

#### Interbank certificates

- (1) For the year ended December 31, 2017, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate principal amount of RMB44,980.0 million. The interbank certificates have a term ranging from one month to one year and bear effective interest rates between 3.10% and 5.31% per annum.

#### Financial bonds

- (1) In March 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.67% per annum.

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- (2) In April 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of five years and bear an interest rate of 5.00% per annum.
- (3) In May 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.90% per annum.
- (4) In August 2017, we issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.85% per annum.

### **XL. Equity-linked Agreement**

During the Reporting Period and up to the Latest Practicable Date, the Bank did not enter into any equity-linked agreement.

### **XLI. Events after the Reporting Period**

#### **(I) Change of Joint Company Secretary, Authorized Representative and Process Agent**

For change of joint company secretary, authorized representative and process agent of the Bank, please refer to relevant disclosures in “— XLIV. Joint Company Secretaries”.

#### **(II) Resignation of Independent Non-executive Director**

The Board of Directors received the resignation letter of Mr. Chen Aiguo (“Mr. Chen”), an independent non-executive Director, on March 27, 2018. Mr. Chen has tendered his resignation as an independent non-executive Director, the chairman of the nomination and remuneration committee, a member of strategy and development committee and a member of audit committee of the Board as he intends to focus on other job commitments. Mr. Chen confirmed that he has no disagreement with the Board of Directors and there are no circumstances related to his resignation which need to be brought to the attention of the shareholders of the Bank, creditors and the Hong Kong Stock Exchange.

Whereas the resignation of Mr. Chen will result in the number of independent non-executive Directors falling below the minimum number required by the Bank’s Articles of Association and the Hong Kong Listing Rules, pursuant to relevant laws and regulations and the Articles of Association, Mr. Chen will continue to perform his duties as independent non-executive Director and chairman/member of special committees under the Board of Directors, until the appointment of a new independent non-executive Director is approved by the Bank’s general meeting and the qualification of director is approved by the CBRC. The Bank will complete the procedures of the appointment of a new independent non-executive Director as soon as possible according to the provisions of relevant laws and regulations and the Articles of Association, and publish the relevant announcements and circular pursuant to the Hong Kong Listing Rules.



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For the details of Mr. Chen's resignation, please refer to the Bank's relevant announcement dated March 27, 2018.

### (III) Resignation and Appointment of Supervisor

Mr. Zhu Xingjie ("Mr. Zhu") tendered his resignation to the Board of Supervisors as an external Supervisor of the Bank, and the director of the audit committee and a member of the supervision committee under the Board of Supervisors on March 27, 2018 because he expects to focus on other affairs. The resignation of Mr. Zhu will take effect from the date when the new external Supervisor of the Bank formally assumes his role. Mr. Zhu confirmed that he has no disagreement with the Board and the Board of Supervisors and there are no circumstances related to his resignation which need to be brought to the attention of the Shareholders and creditors of the Bank and the Hong Kong Stock Exchange.

The Board of Supervisors approved the proposed appointment of Mr. Luo Yi ("Mr. Luo") as an external Supervisor of the Bank at the eighteenth meeting of first session of the Board of Supervisors held on March 27, 2018. In accordance with the Articles of Association of the Bank and relevant PRC laws and regulations, the proposed appointment of Mr. Luo as an external Supervisor of the Bank is still subject to the approval by the shareholders of the Bank at a shareholders' general meeting.

For the details of the biography of Mr. Luo, please refer to the Bank's relevant announcement dated March 27, 2018.

Save as disclosed above, neither the Bank nor its subsidiary had other significant events after the Reporting Period to the Latest Practicable Date.

## XLII. Review of Annual Results

Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited have audited the consolidated financial statements of the Group prepared in accordance with the PRC GAAP and IFRS, respectively, and issued standard unqualified auditors' reports. The Board of Directors and the Audit Committee of the Bank have reviewed the results and financial report of the Bank for the year ended December 31, 2017 and recommended the Board of Directors to approve these documents.

## XLIII. Business Activities Involving Sanctioned Countries

The United States has imposed sanctions against Cuba, Iran, North Korea, Sudan, Syria, and the Crimea region of Ukraine (the "Sanctioned Countries") as well as individual persons and entities on lists of designated parties. To varying extents, the European Union, Australia, and the United Nations also maintain certain sanctions.

## Chapter 5 Report of the Board of Directors

We do not engage, and have not in the past five years engaged, in a transaction or dealing, directly or indirectly, involving a Sanctioned Country other than Iran. Our Iran-related transactions and dealings have been limited to the provision of RMB and Euro (“EUR”) settlement services to PRC merchants that we believe sell daily necessities and commercial electronic devices to Iranian companies. As of the Latest Practicable Date, in connection with these settlement services, we maintain RMB and EUR settlement accounts for sixteen Iranian banks.

Fourteen of the fifteen Iranian banks for which we maintain accounts are identified on the List of Persons Identified as Blocked Solely Pursuant to Executive Order 13599 (the “13599 List”) by the U.S. Department of Treasury Office of Foreign Assets Control (“OFAC”). As a general matter, U.S. persons, wherever located, have an obligation to block the property and interests in property of individuals and entities that meet the definition of the Government of Iran or an Iranian financial institution, including those entities identified in the 13599 List. However, U.S. sanctions do not currently prohibit non-U.S. persons, such as financial institutions like us, from engaging in transactions or dealings with these banks, including maintaining RMB and EUR accounts for them, provided there is no involvement by U.S. persons, including U.S. financial institutions. As described in more detail below, our Iran-related activities do not involve, directly or indirectly, U.S. persons or U.S. financial institutions. The remaining one Iranian bank is not identified on the 13599 List. None of the fifteen Iranian banks for which we maintain accounts are currently listed on the OFAC List of Specially Designated Nationals and Blocked Persons (the “SDN List”) or on the E.U. Consolidated List of Financial Sanctions Targets.

The monetary value of the Iran-related settlement transactions we have handled from 2014 to 2017, as well as the commission income we received in connection with these settlement services and the percentage of our total operating income that this commission income represents, are set out as follows:

Year	Settlement Amount	Commission Income	Percent of Total
2014	—	—	—
2015	US\$30.6 million	RMB0.5 million	0.01%
2016	US\$151.2 million	RMB2.8 million	0.04%
2017	US\$591.32 million	RMB21.82 million	0.25%

When we applied to the Hong Kong Stock Exchange for the listing of the H Shares issued by the Bank on the Hong Kong Stock Exchange, we made the following undertakings to the Hong Kong Stock Exchange:

- We will not knowingly use the proceeds from the Global Offering or any other funds raised through the Hong Kong Stock Exchange to finance or facilitate, directly or indirectly, sanction projects or businesses in the Sanctioned Countries;
- We will disclose on the Hong Kong Stock Exchange’s website and on our own website if our transactions or dealings in Sanctioned Countries put us or our Shareholders or potential investors at risk of being sanctioned; and

## Chapter 5 Report of the Board of Directors

- We will disclose in our annual reports/interim reports our efforts on monitoring sanctions risk exposure, the status of any future business in the Sanctioned Countries, and our business intentions relating to the Sanctioned Countries.

We have adopted the following internal control measures to identify, monitor, and manage our exposure to sanctions risk and to comply with our undertakings to the Hong Kong Stock Exchange:

- We conduct sanctions-related screening in connection with our international transactions, including screening against the SDN List and the Sectoral Sanctions Identifications List and the E.U. Consolidated List of Financial Sanctions Targets;
- We provide training on sanctions laws to all business personnel of the Bank;
- We will seek appropriate advice from external legal advisers upon identifying any material sanctions risk in our operations; and
- We will closely monitor the use of the proceeds from the Global Offering and other funds raised through the Hong Kong Stock Exchange to help ensure the proceeds and other funds will not be used for or applied to any sanctioned business. We have deposited these proceeds and funds in a separate bank account.

We expect that we will not engage in the future in a transaction or dealing, directly or indirectly, involving a Sanctioned Country other than Iran. Our Iran-related transactions and dealings will also be limited to the provision of RMB and EUR settlement services to PRC merchants that we believe have business dealings with Iranian companies. We will not take the initiative to enlarge the scale of our Iran-related transactions unless required by national macro policies or strategies, to ensure these transactions account for one percent or less of our total operating income.

We consider various factors when determining whether to engage in transactions involving Sanctioned Countries, including:

- The scale of the transactions as a percentage of our total operating income;
- Involvement of any persons or entities on lists of designated parties maintained by the sanctions enforcement agencies;
- Involvement of any industries or sectors that are subject to sanctions; and
- Legal and reputational risks.

## Chapter 5 Report of the Board of Directors

### XLIV. Joint Company Secretaries

Ms. Hui Yin Shan, former joint company secretary of the Bank, resigned as the joint company secretary of the Bank, the authorized representative (the “Authorized Representative”) of the Bank under Rule 3.05 of the Hong Kong Listing Rules and the Bank’s authorized representative (“Process Agent”) for the acceptance of service of process or notice in Hong Kong under the Companies Ordinance on February 28, 2018. On the same day, Ms. Ko Nga Kit was appointed as the joint company secretary, Authorized Representative and Process Agent of the Bank.

Pursuant to Rule 8.17 of the Hong Kong Listing Rules, a listed issuer must appoint a company secretary who meets the requirements under Rule 3.28 of the Hong Kong Listing Rules. Rule 3.28 of the Hong Kong Listing Rules provides that a listed issuer must appoint as its company secretary an individual who, in the opinion of the Hong Kong Stock Exchange, is capable of discharging the functions of company secretary of the listed issuer by virtue of his or her academic or professional qualifications or relevant experience.

Reference is made to our H Shares Global Offering Prospectus in which Mr. Xu Jianping was appointed as one of the joint company secretaries and the waiver (the “Waiver”) granted to the Bank by the Hong Kong Stock Exchange from strict compliance with the requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules in relation to the eligibility of Mr. Xu to act as the joint company secretary for a period of three years from the date of the listing of the Bank’s H Shares on the Main Board of the Hong Kong Stock Exchange (i.e., January 18, 2018), subject to the condition that the Bank engages Ms. Hui Yin Shan as a joint company secretary to assist Mr. Xu Jianping in discharging his functions as a joint company secretary and in gaining the relevant experience as required under Rule 3.28 of the Hong Kong Listing Rules. The Waiver will be revoked immediately when Ms. Hui Yin Shan, during the three-year period, ceases to provide assistance to Mr. Xu. Additionally, prior to the end of the three-year period, the Bank must liaise with the Hong Kong Stock Exchange to revisit the situation in the expectation that the Bank should then be able to demonstrate to the satisfaction of the Hong Kong Stock Exchange that Mr. Xu Jianping, having had the benefit of Ms. Hui’s assistance for three years, would then have acquired the relevant experience within the meaning of Rule 3.28 of the Hong Kong Listing Rules so that a further waiver would not be necessary.

Mr. Xu Jianping currently does not possess the qualifications of company secretary as required under Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The Bank has therefore appointed Ms. Ko who possesses the qualifications of company secretary as required under Rules 3.28 and 8.17 of the Hong Kong Listing Rules as a joint company secretary. Ms. Ko will provide assistance to Mr. Xu to help him acquire the relevant experience as required of a company secretary under Note 2 to Rule 3.28 of the Hong Kong Listing Rules and discharge his functions as the joint company secretary.

The Bank has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted the Bank, a new waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Hong Kong Listing Rules with respect to the eligibility of Mr. Xu Jianping to act as a joint company secretary (the “New Waiver”) from the date on which Ms. Ko was appointed as the joint company secretary to January 17, 2021 (i.e., the end of the three-year period) (the “New Waiver Period”). The New Waiver is granted on the conditions that (1) Mr. Xu Jianping will be assisted by Ms. Ko during the New Waiver Period;

## Chapter 5 Report of the Board of Directors

(2) the Bank shall notify the Hong Kong Stock Exchange prior to the end of the New Waiver Period for the Hong Kong Stock Exchange to revisit the situation. The Hong Kong Stock Exchange expects that, after the end of the New Waiver Period, the Bank will be able to demonstrate that Mr. Xu Jianping can satisfy the requirements under Rules 3.28 and 8.17 of the Hong Kong Listing Rules after having the benefit of Ms. Ko's assistance such that a further waiver will not be necessary; and (3) the Bank will disclose the details of the New Waiver, including its reasons and conditions, by way of an announcement. The New Waiver will be revoked immediately if and when Ms. Ko ceases to provide assistance to Mr. Xu in discharging his duties as a joint company secretary. In addition, the Hong Kong Stock Exchange may withdraw or change the New Waiver if the Bank's situation changes.

### XLV. Miscellaneous

1. As of the Latest Practicable Date, the Bank was not aware that any Shareholders had waived or agreed to waive any dividend arrangement.
2. As of the Latest Practicable Date, none of the Directors waived or agreed to waive the related remuneration arrangements.
3. During the Reporting Period and up to the Latest Practicable Date, there were no collateral and pledges of significant assets of the Bank.
4. The Bank did not implement any equity incentive plan during the Reporting Period and up to the Latest Practicable Date.
5. The Bank did not implement any employee stock ownership scheme during the Reporting Period and up to the Latest Practicable Date.

By Order of the Board

**Li Xin**

*Chairman*

## Chapter 6 Work Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors continued to strengthen its capabilities and improve its executing capability pursuant to the Company Law, the Guidelines on Corporate Governance of Commercial Bank and the Articles of Association, and carried out supervision of performance of duties, finance, internal control and risk management to facilitate the regulated operation and sound development of corporate governance.

### I. Principal work of the Board of Supervisors

During the Reporting Period, the Board of Supervisors added two external Supervisors according to the statutory procedure and adjusted the members of the supervisory committee, nomination committee and audit committee, optimized the organizational structure of the Board of Supervisors. The Board of Supervisors consists of nine Supervisors, including three employee representative Supervisors, three shareholder Supervisors and three external Supervisors, and each of its committees consists of five members, the chairman shall be acted by an external Supervisor, thus satisfying the regulatory requirements on the composition and proportion of members of Board of Supervisors.

During the Reporting Period, a total of five meetings were convened by the Board of Supervisors to consider 19 resolutions involving the listing of H Shares, business operations, internal control, risk management, and corporate governance; the Board of Supervisors listened to 20 reports involving internal audit, connected transactions, and asset quality. Seven special committee meetings were convened to review reports on performance of duties, financial management, risk management and internal control. In addition, Supervisors attended the general meetings and presented at all the on-site meetings of the Board, conducted supervision over the legal compliance of the convening, voting procedures of the shareholders' general meetings and the Board meetings and Directors' attendance, opinions and voting thereat.

During the Reporting Period, all three external Supervisors of the Bank were able to perform their supervisory duties independently. In performance of their duties, the external Supervisors proactively familiarized themselves with the operation and management of the Bank by attending meetings of the Board of Supervisors, convening special committee meetings of the Board of Supervisors, attending the Board meetings, participating in the Board of Supervisors' investigations and surveys conducted (on a collective or separate basis) at branch level, and expressed opinions and suggestions on significant matters. During the adjournment of the Board meetings and the meetings of Board of Supervisors, the external Supervisors were able to review various information including archive files and reports of the Bank and exchange opinions with the Board of Directors and senior management on any findings in a timely manner, thereby playing an active role in performing their supervisory duties.

During the Reporting Period, the Board of Supervisors evaluated the duty performance of Directors, Supervisors and senior management for 2017 in accordance with the requirements of the Guidelines on the Functioning of Board of Supervisors Commercial Banks, the Articles of Association and the Measures of the Board of Supervisors of Bank of Gansu Co., Ltd. on Due Diligence Supervision Over the Directors, Presidents and Other Senior Management. After evaluation, the Board of Supervisors believed that the Board of Directors fully performed its decision-making and supervision functions, and formulated plans with respect to development strategies, risk management and internal control policies, and capital planning

## Chapter 6 Work Report of the Board of Supervisors

for the Bank's business development goals, operations and risk conditions, and risk tolerance capabilities in accordance with the current economic and financial conditions. Through the implementation of authorized management and target assessment for senior management, the senior management was promoted to effectively implement the resolutions of the Board of Directors and promote the realization of various operation and management objectives; the senior management effectively implemented the strategic decisions of the Board of Directors. After fulfilling the annual business objectives made by the Board of Directors, the senior management continued to strengthen efforts to speed up the adjustment and optimization of business structure, effectively enhance the risk management capabilities, improve the internal control system, which plays an active and important role in corporate governance and business management and improves the Bank's comprehensive benefits and brand influence. Upon evaluation, it is considered that all Directors, senior management members and Supervisors were competent.

### II. Independent opinions issued on relevant matters

#### (I) Compliant operation

The business activities conducted by the Bank in 2017 were in compliance with the requirements of the Company Law, the Commercial Banking Law and the Articles of Association, and decision-making procedures were lawful and valid. Neither violation of laws, regulations or the Articles of Association nor harm to the interests of the Bank or Shareholders during performance of duties by the Directors or senior management of the Bank was identified.

#### (II) Authenticity of the financial report

SHINEWING (HK) CPA Limited has audited the financial report for 2017 prepared by the Bank under the IFRS and issued a standard unqualified audit report thereon. The Board of Supervisors was of the view that the financial report gave an objective view of the financial position and operating results of the Bank, and no false records or material omissions were found.

#### (III) Related party transactions

The Board of Supervisors was not aware of any related party transaction conducted by the Bank in 2017 which was against the principle of fairness or detrimental to the interests of the Bank and its Shareholders.

#### (IV) Implementing resolutions of the Shareholders' general meeting by the Board

The Board of Supervisors had no disagreement upon any reports and proposals submitted by the Board to the Shareholders' general meeting for consideration in 2017, and was of the view that the Board diligently implemented relevant resolutions passed at the Shareholders' general meetings.

In 2018, the Board of Supervisors will continue to optimize supervision measures and deepen its supervision work in accordance with domestic and overseas regulatory requirements and the duties conferred by the Articles of Association of the Bank, aiming at further improving the independence and effectiveness of its supervision efforts.

# Chapter 7 Changes in Share Capital and Particulars of Shareholders

## I. Changes in Share Capital of the Bank

### (I) Share Capital

The H Shares of the Bank were listed on the Hong Kong Stock Exchange on January 18, 2018 (the “Listing Date”). The offer price was determined at HK\$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The global offering of the Bank comprised 2,212,000,000 H Shares. Four cornerstone investors subscribed for 1,163,152,000 H Shares in total issued by the Bank. The net proceeds from global offering received by the Bank, after deducting the underwriting fees, commissions, and other expenses borne by us in relation to the global offering and assuming the over-allotment option was not exercised, are approximately HK\$5,743.18 million.

On February 5, 2018, the Joint Representatives (as defined in the prospectus of Global Offering of the Bank’s H Shares) (on behalf of the international underwriters) fully exercised the over-allotment option in respect of an aggregate of 331,800,000 H Shares, representing in aggregate 15% of the offer shares initially offered under the global offering before any exercise of the over-allotment option, to cover over-allocations in the international offering. The over-allotment shares were issued and allotted at HK\$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). Listing of and dealing in the over-allotment shares were commenced on the Main Board of the Hong Kong Stock Exchange on February 8, 2018. The additional net proceeds from the issue of the over-allotment shares by the Bank, after deduction of underwriting commissions, brokerage, transaction levy and trading fee, was approximately HK\$872.84 million.

We intend to use the net proceeds that we will receive from the global offering to strengthen our capital base to support the on-going growth of our business. As of the date of this report, the Bank has not used the proceeds from the global offering.



## Chapter 7 Changes in Share Capital and Particulars of Shareholders

### (II) Changes in Share Capital

As of December 31, 2017, the share capital of the Bank comprises 7,525,991,330 Domestic Shares. Immediately following the completion of the Bank's global offering and the full exercise of the over-allotment option, the share capital of the Bank was as follows:

Description of Shares	Number of Shares	Approximate Percentage of Issued Share Capital
Domestic Shares	7,525,991,330	74.74%
H Shares issued pursuant to the Global Offering	2,543,800,000	25.26%
<b>Total</b>	<b>10,069,791,330</b>	<b>100.0%</b>

As of the date of this annual report, the share capital of the Bank is as follows:

Description of Shares	Number of Shares	Approximate Percentage of Issued Share Capital
Domestic Shares	7,525,991,330	74.74%
H Shares	2,543,800,000	25.26%
<b>Total</b>	<b>10,069,791,330</b>	<b>100.0%</b>

## Chapter 7 Changes in Share Capital and Particulars of Shareholders

### II. Particulars of Shareholders

#### (I) Particulars of Shareholdings of the Top Ten Shareholders of the Domestic Shares of the Bank

No.	Name of Shareholder	The Number of Shares Held as at December 31, 2017 <sup>(1)</sup>	Shareholding Percentage as at December 31, 2017 (%)	The Number of Shares Held as at the Latest Practicable Date <sup>(1)</sup>	Shareholding Percentage as at the Latest Practicable Date (%)
1	Gansu Highway Aviation Tourism	1,157,154,433	15.38	1,157,154,433	11.49
2	Baoshang Bank	845,296,403	11.23	845,296,403	8.39
3	Jinchuan Group	633,972,303	8.42	633,972,303	6.30
4	Gansu Electric Power Investment	633,972,303	8.42	633,972,303	6.30
5	Jiuquan Iron & Steel	633,972,303	8.42	633,972,303	6.30
6	Gansu State-owned Assets Investment	359,250,972	4.77	359,250,972	3.57
7	Yong Xin Hua Holdings Co., Ltd.	239,326,800	3.18	239,326,800	2.38
8	Jingyuan Coal Industry Group Limited	239,326,800	3.18	239,326,800	2.38
9	Readers Publishing Group Limited	211,324,101	2.81	211,324,101	2.10
10	Ningxia Tianyuan Manganese Limited Company (寧夏天元錳業有限公司)	201,083,333	2.67	201,083,333	2.00
	Hebei Jingye Group Co., Ltd. (河北敬業集團有限責任公司)	201,083,333	2.67	201,083,333	2.00

Note:

(1) The shareholding in this table refers to the number of Domestic Shares directly held in the Bank.

#### (II) Interests and Short Positions of Substantial Shareholders and Other Persons

During the Reporting Period, the Bank's shares were not listed on the Hong Kong Stock Exchange. The interests or short positions in the Shares or underlying Shares which would be required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO, or interests or short positions registered on the register pursuant to section 336 of the SFO, were not applicable to the Bank.

The H Shares issued by the Bank were listed on the Hong Kong Stock Exchange on January 18, 2018. To the best knowledge of the Bank, as at of the Latest Practicable Date, the following persons (other than the Bank's Directors, Supervisors and chief executive) had or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares as recorded in the register of interests required to be kept by the Bank pursuant to section 336 of Part XV of the SFO and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, were interested in 5% or more of the nominal value of any class of the Bank's share capital carrying rights to vote in all circumstances at the shareholders' general meetings of any other member of the Bank:

## Chapter 7 Changes in Share Capital and Particulars of Shareholders

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held <sup>(2,4)</sup>	Approximate Percentage of the Total Issued Share Capital of the Bank (%)	Approximate Percentage of the Relevant Class of Shares of the Bank (%)
Gansu State-owned Assets Investment	Beneficial owner	Domestic Shares	359,250,972(L)	3.57	4.77
	Interest in controlled corporations <sup>(1)</sup>	Domestic Shares	1,267,944,606(L)	12.59	16.85
Gansu Highway Aviation Tourism	Beneficial owner	Domestic Shares	1,157,154,433(L)	11.49	15.38
Baoshang Bank	Beneficial owner	Domestic Shares	845,296,403(L)	8.39	11.23
Jiuquan Iron & Steel	Beneficial owner	Domestic Shares	633,972,303(L)	6.30	8.42
Gansu Electric Power Investment	Beneficial owner	Domestic Shares	633,972,303(L)	6.30	8.42
Jinchuan Group	Beneficial owner	Domestic Shares	633,972,303(L)	6.30	8.42
Hong Kong Dasheng Investment Holdings Limited	Beneficial owner	H Shares	436,182,000(L)	4.33	17.15
Shenzhen Dasheng Agricultural Group Co., Ltd.	Interest in controlled corporations <sup>(2)</sup>	H Shares	436,182,000(L)	4.33	17.15
Shenzhen Qianhai Dasheng Equity Investment Fund Co., Ltd.	Interest in controlled corporations <sup>(3)</sup>	H Shares	436,182,000(L)	4.33	17.15
Lan Huasheng	Interest in controlled corporations <sup>(4)</sup>	H Shares	436,182,000(L)	4.33	17.15
Huaxun International Group Limited	Beneficial owner	H Shares	290,788,000(L)	2.89	11.43
Huaxun Fangzhou Technology Co., Ltd.	Interest in controlled corporation <sup>(5)</sup>	H Shares	290,788,000(L)	2.89	11.43
Wu Guangsheng	Interest in controlled corporations <sup>(6)</sup>	H Shares	290,788,000(L)	2.89	11.43
China Create Capital Limited	Beneficial owner	H Shares	290,788,000(L)	2.89	11.43
Zhang Wei	Interest in controlled corporation <sup>(7)</sup>	H Shares	290,788,000(L)	2.89	11.43

## Chapter 7 Changes in Share Capital and Particulars of Shareholders

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held <sup>(24)</sup>	Approximate Percentage of the Total Issued Share Capital of the Bank (%)	Approximate Percentage of the Relevant Class of Shares of the Bank (%)
Huarong Rongde (Hong Kong) Investment Management Company Limited	Beneficial owner	H Shares	145,394,000(L)	1.44	5.72
Huarong Rongde Asset Management Company Limited	Interest in controlled corporation <sup>(8)</sup>	H Shares	145,394,000(L)	1.44	5.72
China Huarong Asset Management Co., Ltd.	Interest in controlled corporations <sup>(9)</sup>	H Shares	145,394,000(L)	1.44	5.72
Cathay Capital Company (No.2) Limited	Interest in controlled corporations <sup>(10)</sup>	H Shares	145,394,000(L)	1.44	5.72
Deutsche Bank Aktiengesellschaft	Interest in controlled corporations <sup>(11)</sup>	H Shares	145,394,000(L)	1.44	5.72
BOC-LION RAINBOW NO.14 FUND	Trustee <sup>(12)</sup>	H Shares	282,064,000(L)	2.80	11.09
Citigroup Global Markets Hong Kong Limited	Beneficial owner <sup>(13)</sup>	H Shares	203,551,000(L)	2.02(L)	8.00(L)
			203,551,000(S)	2.02(S)	8.00(S)
Citigroup Financial Products Inc.	Interest in controlled corporation <sup>(14)</sup>	H Shares	203,551,000(L)	2.02(L)	8.00(L)
			203,551,000(S)	2.02(S)	8.00(S)
Citigroup Global Markets Holdings Inc.	Interest in controlled corporations <sup>(15)</sup>	H Shares	203,551,000(L)	2.02(L)	8.00(L)
			203,551,000(S)	2.02(S)	8.00(S)
Citigroup Inc.	Interest in controlled corporations <sup>(16)</sup>	H Shares	203,551,000(L)	2.02(L)	8.00(L)
			203,551,000(S)	2.02(S)	8.00(S)
Anar Real Estate Group Co., Ltd. (石榴置業集團股份有限公司)	Founder of a discretionary trust, who can affect the trustee how to exercise discretionary trust <sup>(17)</sup>	H Shares	282,064,000(L)	2.80	11.09

## Chapter 7 Changes in Share Capital and Particulars of Shareholders

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held <sup>(24)</sup>	Approximate Percentage of the Total Issued Share Capital of the Bank (%)	Approximate Percentage of the Relevant Class of Shares of the Bank (%)
Beijing Kadapu Investment Co., Ltd. (北京卡達普投資有限公司)	Interest in controlled corporations <sup>(18)</sup>	H Shares	282,064,000(L)	2.80	11.09
Beijing Annatuoliya Investment Co., Ltd. (北京安納托利亞投資有限公司)	Interest in controlled corporations <sup>(19)</sup>	H Shares	282,064,000(L)	2.80	11.09
Cui Wei	Interest in controlled corporations <sup>(20)</sup>	H Shares	282,064,000(L)	2.80	11.09
Sang Chunhua	Interest in controlled corporations <sup>(21)</sup>	H Shares	282,064,000(L)	2.80	11.09
China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信託有限公司)	Trustee <sup>(22)</sup>	H Shares	360,577,000(L)	3.58	14.17
Chang'an International Trust Co., Ltd. (長安國際信託股份有限公司)	Trustee <sup>(23)</sup>	H Shares	282,064,000(L)	2.80	11.09

### Notes:

- (1) Gansu State-owned Assets Investment directly held 359,250,972 Domestic Shares, representing approximately 3.57% of the total issued Shares. Gansu SASAC and Jiuquan Iron & Steel hold 83.54% and 16.46% equity interest in Gansu State-owned Assets Investment, respectively, while Gansu State-owned Assets Investment in turn holds 31.91% equity interest in Jiuquan Iron & Steel. Gansu State-owned Assets Investment also holds 100% of the equity interest in Gansu Electric Power Investment and 48.67% of the equity interest in Jinchuan Group. Therefore, Gansu Electric Power Investment and Jinchuan Group are controlled corporations of Gansu State-owned Assets Investment. Pursuant to the SFO, Gansu State-owned Assets Investment is deemed to be interested in the Shares held by Gansu Electric Power Investment and Jinchuan Group.
- (2) Hong Kong Dasheng Investment Holdings Limited is a wholly-owned subsidiary of Shenzhen Dasheng Agricultural Group Co., Ltd. According to the SFO, Shenzhen Dasheng Agricultural Group Co., Ltd. is deemed to be interested in the Shares held by Hong Kong Dasheng Investment Holdings Limited.
- (3) Hong Kong Dasheng Investment Holdings Limited is a wholly-owned subsidiary of Shenzhen Dasheng Agricultural Group Co., Ltd. Shenzhen Qianhai Dasheng Equity Investment Fund Co., Ltd. holds 70.0% of the total share capital in Shenzhen Dasheng Agricultural Group Co., Ltd. According to the SFO, Shenzhen Qianhai Dasheng Equity Investment Fund Co., Ltd. is deemed to be interested in the Shares held by Hong Kong Dasheng Investment Holdings Limited.

## Chapter 7 Changes in Share Capital and Particulars of Shareholders

- (4) Hong Kong Dasheng Investment Holdings Limited is a wholly-owned subsidiary of Shenzhen Dasheng Agricultural Group Co., Ltd. Shenzhen Qianhai Dasheng Equity Investment Fund Co., Ltd. holds 70.0% of the total share capital in Shenzhen Dasheng Agricultural Group Co., Ltd. Mr. Lan Huasheng holds 70.0% of the total share capital in Shenzhen Qianhai Dasheng Equity Investment Fund Co., Ltd. According to the SFO, Mr. Lan Huasheng is deemed to be interested in the Shares held by Hong Kong Dasheng Investment Holdings Limited.
- (5) Huaxun International Group Limited is a wholly-owned subsidiary of Huaxun Fangzhou Technology Co., Ltd. According to the SFO, Huaxun Fangzhou Technology Co., Ltd. is deemed to be interested in the Shares held by Huaxun International Group Limited.
- (6) Huaxun International Group Limited is a wholly-owned subsidiary of Huaxun Fangzhou Technology Co., Ltd. Mr. Wu Guangsheng holds approximately 39.98% of the total share capital in Huaxun Fangzhou Technology Co., Ltd. According to the SFO, Mr. Wu Guangsheng is deemed to be interested in the Shares held by Huaxun International Group Limited.
- (7) Mr. Zhang Wei holds 100% of the total issued share capital in China Create Capital Limited. According to the SFO, Mr. Zhang Wei is deemed to be interested in the Shares held by China Create Capital Limited.
- (8) Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. According to the SFO, Huarong Rongde Asset Management Company Limited is deemed to be interested in the Shares held by Huarong Rongde (Hong Kong) Investment Management Company Limited.
- (9) Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. China Huarong Asset Management Co., Ltd. holds 59.3% of the registered share capital in Huarong Rongde Asset Management Company Limited. According to the SFO, China Huarong Asset Management Co., Ltd. is deemed to be interested in the Shares held by Huarong Rongde (Hong Kong) Investment Management Company Limited.
- (10) Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. Cathay Capital Company (No.2) Limited holds 40.7% of the registered share capital in Huarong Rongde Asset Management Company Limited. According to the SFO, Cathay Capital Company (No.2) Limited is deemed to be interested in the Shares held by Huarong Rongde (Hong Kong) Investment Management Company Limited.
- (11) Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. Cathay Capital Company (No.2) Limited holds 40.7% of the registered share capital in Huarong Rongde Asset Management Company Limited, while Deutsche Bank Aktiengesellschaft holds 67.57% equity interest in Cathay Capital Company (No.2) Limited. According to the SFO, Deutsche Bank Aktiengesellschaft is deemed to be interested in the Shares of the Bank held by Huarong Rongde (Hong Kong) Investment Management Company Limited.
- (12) According to the disclosure of interests form filed by BOC-LION RAINBOW NO.14 FUND on February 26, 2018, it holds 282,064,000 H Shares of the Bank as a trustee.
- (13) According to the disclosure of interests form filed by Citigroup Inc. on February 13, 2018, Citigroup Global Markets Hong Kong Limited holds 203,551,000 long positions and 203,551,000 short positions in the Shares of the Bank as a beneficial owner.
- (14) Citigroup Global Markets Hong Kong Limited is a wholly-owned subsidiary of Citigroup Financial Products Inc.. According to the SFO, Citigroup Financial Products Inc. is deemed to be interested in the Shares of the Bank held by Citigroup Global Markets Hong Kong Limited.
- (15) Citigroup Global Markets Hong Kong Limited is a wholly-owned subsidiary of Citigroup Financial Products Inc.. Citigroup Financial Products Inc. is a wholly-owned subsidiary of Citigroup Global Markets Holdings Inc.. According to the SFO, Citigroup Global Markets Holdings Inc. is deemed to be interested in the Shares of the Bank held by Citigroup Global Markets Hong Kong Limited.
- (16) Citigroup Global Markets Hong Kong Limited is a wholly-owned subsidiary of Citigroup Financial Products Inc.. Citigroup Financial Products Inc. is a wholly-owned subsidiary of Citigroup Global Markets Holdings Inc.. Citigroup Global Markets Holdings Inc. is a wholly-owned subsidiary of Citigroup Inc.. According to the SFO, Citigroup Inc. is deemed to be interested in the Shares of the Bank held by Citigroup Global Markets Hong Kong Limited.

## Chapter 7 Changes in Share Capital and Particulars of Shareholders

- (17) According to the disclosure of interests form filed by Anar Real Estate Group Co., Ltd. (石榴置業集團股份有限公司) on January 29, 2018, it holds 282,064,000 H Shares of the Bank as founder of a discretionary trust who can influence the trustee how to exercise its discretion.
- (18) Beijing Kadapu Investment Co., Ltd. (北京卡達普投資有限公司) holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. According to the SFO, Beijing Kadapu Investment Co., Ltd. is deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..
- (19) Beijing Kadapu Investment Co., Ltd. holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. Beijing Kadapu Investment Co., Ltd. is a wholly-owned subsidiary of Beijing Annatuoliya Investment Co., Ltd. (北京安納托利亞投資有限公司). According to the SFO, Beijing Annatuoliya Investment Co., Ltd. is deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..
- (20) Beijing Kadapu Investment Co., Ltd. holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. Beijing Kadapu Investment Co., Ltd. is a wholly-owned subsidiary of Beijing Annatuoliya Investment Co., Ltd.. Cui Wei holds 58.0% equity interest in Beijing Annatuoliya Investment Co., Ltd.. According to the SFO, Cui Wei is deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..
- (21) Beijing Kadapu Investment Co., Ltd. holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. Beijing Kadapu Investment Co., Ltd. is a wholly-owned subsidiary of Beijing Annatuoliya Investment Co., Ltd.. Sang Chunhua holds 42.0% equity interest in Beijing Annatuoliya Investment Co., Ltd.. According to the SFO, Sang Chunhua is deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..
- (22) According to the disclosure of interests form filed by China Foreign Economy and Trade Trust Co., Ltd. on January 31, 2018, it holds 360,577,000 H Shares of the Bank as a trustee, among which, "FOTIC - Wuxingbaichuan No. 26 Special Unitrust of Anar Group" (外資信託 — 五行百川26號石榴集團專項單 — 資金信託) holds 282,064,000 H Shares of the Bank, "FOTIC - Wuxingbaichuan No. 25 Unitrust" (外資信託 — 五行百川25號單 — 資金信託) holds 78,513,000 H Shares of the Bank.
- (23) According to the disclosure of interests form filed by Beijing Annatuoliya Investment Co., Ltd. on January 29, 2018, Chang'an International Trust Co., Ltd. is entitled to control the trust scheme in respect of 282,064,000 H Shares of the Bank formed by China Foreign Economy and Trade Trust Co., Ltd. where it acts as a trustee thereof. According to the SFO, Chang'an International Trust Co., Ltd. is deemed to be interested in the 282,064,000 Shares.
- (24) L denotes long position and S denotes short position.

Save as disclosed above, as of the Latest Practicable Date, the Bank is not aware of any other person, other than the Directors, Supervisors and chief executive of the Bank, who had interests or short positions in the Shares and underlying Shares of the Bank, which were required to be recorded in the register of interests maintained by the Bank pursuant to section 336 of Part XV of the SFO, and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### (III) Shareholders Holding 5% or More of the Share Capital

Please refer to II. Particular of Shareholders above for information on Shareholders holding 5% or more of the share capital of the Bank.

### (IV) Particulars of Controlling Shareholders and Actual Controller

The Bank does not have a controlling shareholder or actual controller.

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

## I. Information on Directors, Supervisors and Senior Management Members

As of the date of this annual report, the information of the Directors, Supervisors and senior management members of the Bank is as follows:

### Directors

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Mr. Li Xin (李鑫)	59	May 2011	October 15, 2011	Chairman, Executive Director	Presiding over the overall operations of the Bank, and primarily responsible for matters concerning the Board of Directors, human resources, strategic planning, business development and party-related matters
Mr. Lei Tie (雷鐵)	53	October 2011	October 15, 2011	Executive Director, Vice President <sup>(2)</sup>	(1) as acting president of the Bank prior to the formal appointment of the new president, responsible for the overall operation and management of the Bank, implementation of the strategic objectives and overall achievement of the operating objectives of the Bank, and (2) as an executive Director and a vice president of the Bank, responsible for bank-wide accounting operations, information technology infrastructure, support and back-up of technological system; in charge of the accounting and operation department, information technology department and the operating department of the head office of the Bank



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

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Ms. Wu Changhong (吳長虹)	54	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member
Ms. Zhang Hongxia (張紅霞)	39	October 2011	October 15, 2011	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member
Mr. Li Hui (李輝)	58	October 2011	October 15, 2011	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Mr. Guo Jirong (郭繼榮)	47	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Mr. Zhang Youda (張有達)	44	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member

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

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Mr. Chen Aiguo (陳愛國)	48	November 2016	November 20, 2016	Independent Non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on strategic development to the Bank based on his extensive experience in business management, and performing his duties as a Director through the Board of Directors, Strategy and Development Committee, Audit Committee, and Nomination and Remuneration Committee
Ms. Tang Xiuli (唐岫立)	49	August 2017	August 12, 2017	Independent Non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing regulatory and compliance-related advice to the Bank based on her extensive experience in banking regulation in the PRC, and performing her duties as a Director through the Board of Directors, Audit Committee and Related Party Transaction and Risk Management Committee

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

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Ms. Luo Mei (羅玫)	42	August 2017	August 12, 2017	Independent Non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on finance and accounting to the Bank based on her extensive experience in finance and accounting, and performing her duties as a Director through the Board of Directors, Audit Committee, Nomination and Remuneration Committee and Related Party Transaction and Risk Management Committee
Mr. Wong Sincere (黃誠思)	53	August 2017	August 12, 2017	Independent Non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank in relation to compliance with Hong Kong laws and the Hong Kong Listing Rules based on his extensive experience in legal and compliance work, and performing his duties as a Director through the Board of Directors, Nomination and Remuneration Committee and Related Party Transaction and Risk Management Committee

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

Notes:

- (1) The date of appointment as a Director stated here represents the date on which the relevant person was elected as a Director by the shareholders' general meeting of the Bank.
- (2) Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer. At a meeting of the Board of Directors held on November 9, 2017, the Board of Directors designated Mr. Lei Tie to assume the roles and responsibilities of the president of the Bank in the interim prior to the formal appointment of the new president of the Bank. The Bank is in the process of selecting the new president.

### Supervisors

Name	Age	Date of joining the Bank	Date of appointment as Supervisor <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Mr. Yang Qian (楊乾)	60	September 2011	October 15, 2011	Chief Supervisor, Employee Representative Supervisor	Responsible for overall work of the Board of Supervisors and supervising the work of the Board of Directors and management to ensure compliance with laws and regulations. In charge of the audit, institution management and security departments of the head office
Mr. Xu Yongfeng (許勇鋒)	53	October 2011	October 15, 2011	Employee Representative Supervisor	Supervising the Board of Directors and the senior management on behalf of the employees of the Bank
Mr. Luo Zhenxia (羅振夏)	53	October 2011	October 15, 2011	Employee Representative Supervisor	Supervising the Board of Directors and the senior management on behalf of the employees of the Bank
Mr. Liu Yongchong (劉永翀)	51	November 2016	November 20, 2016	Shareholder Supervisor	Supervising the Board of Directors and the senior management

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

Name	Age	Date of joining the Bank	Date of appointment as Supervisor <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Mr. Li Yongjun (李永軍)	49	October 2011	October 15, 2011	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Liu Xiaoyu (劉曉宇)	45	November 2016	November 20, 2016	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Zhu Xingjie (朱興杰)	63	October 2011	October 15, 2011	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Yang Zhenjun (楊振軍)	48	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Dong Ying (董英)	54	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management

Note:

- (1) The date of appointment as a Supervisor stated here represents the date on which the relevant person was elected as a Supervisor by the shareholders' general meetings or the employee representatives' meetings (for employee representative Supervisors only) of the Bank.

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

### Senior Management

Name	Age	Date of joining the Bank	Date of first appointment as senior management	Position held as of the Latest Practical Date	Responsibilities
Mr. Lei Tie (雷鐵)	53	October 2011	October 2011	Executive Director, Vice President <sup>(1)</sup>	(1) as acting president of the Bank prior to the formal appointment of the new president, responsible for the overall operation and management of the Bank, implementation of strategic objectives and overall achievement of the operating objectives of the Bank, and (2) as an executive Director and a vice president of the Bank, responsible for bank-wide accounting operations, information technology infrastructure, support and back-up of the technological system; in charge of the accounting and operations department, information technology department and the operating department of the head office of the Bank
Mr. Qiu Jinhu (仇金虎)	53	January 2015	January 2015	Vice President	Responsible for labor union-related works and business of loans to small and medium-sized enterprises and individuals, and in charge of the Retail Business Financial Service Center of the Bank

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

Name	Age	Date of joining the Bank	Date of first appointment as senior management	Position held as of the Latest Practical Date	Responsibilities
Mr. Wang Chunyun (王春雲)	45	October 2011	October 2016	Chief Risk Officer	Responsible for comprehensive risk management, legal and compliance and investment banking business of the Bank. In charge of the Risk and Credit Management Department, Investment Banking Department and Legal and Compliance Department of the Bank
Mr. Wang Zhiyuan (王志遠)	48	April 2012	December 2017	Vice President, General Manager of the Human Resources Department, General Manager of the Strategy and Development Department (concurrent)	Responsible for human resources related works of the Bank
Mr. Xu Jianping (許建平)	47	February 2012	July 2017 <sup>(2)</sup>	Vice President, Secretary to the Board of Directors, Director of the office of the Board of Directors, Joint Company Secretary	Responsible for the daily work of the Board and in charge of the office of the Board

### Notes:

- (1) Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer. At a meeting of the Board of Directors held on November 9, 2017, the Board of Directors designated Mr. Lei Tie to assume the roles and responsibilities of the president of the Bank in the interim prior to the formal appointment of the new president of the Bank. The Bank is in the process of selecting the new president.
- (2) Mr. Xu Jianping was appointed as the secretary to the Board of Directors in July 2017 and a vice president of the Bank in December 2017. The date here refers to the date when Mr. Xu Jianping was appointed as the secretary to the Board of Directors.

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

### II. Changes in Directors, Supervisors and Senior Management Members

#### (I) Changes in Directors

- (1) Ms. Zhang Ping, a former independent Director of the Bank, was appointed as independent Director of the Bank in November 2016. In July 2017, Ms. Zhang Ping proposed to resign from her position of independent Director of the Bank due to personal reason. In November 2017, the resignation of Ms. Zhang Ping formally took effect.
- (2) Mr. Tian Ruizhang, a former independent Director of the Bank, was appointed as independent Director of the Bank in October 2011. In July 2017, since the term of an independent Director should not be beyond for a period of more than six years as required by the relevant laws and regulations of the PRC, Mr. Tian Ruizhang proposed to resign from his position of independent Director of the Bank. In November 2017, the resignation of Mr. Tian Ruizhang formally took effect.
- (3) In August 2017, Ms. Tang Xiuli, Ms. Luo Mei and Mr. Wong Sincere were elected as independent non-executive Directors by the shareholders' general meetings of the Bank. In November 2017, the qualification of Ms. Tang Xiuli, Ms. Luo Mei and Mr. Wong Sincere as Directors was approved by the CBRC Gansu Office.
- (4) Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer. At a meeting of the Board of Directors held on November 9, 2017, the resignation of Mr. Liu Qing was approved by the Board of Directors.
- (5) The Board of Directors received the resignation letter of Mr. Chen Aiguo, an independent non-executive Director of the Bank, on March 27, 2018. Mr. Chen Aiguo has tendered his resignation as an independent non-executive Director, the chairman of the nomination and remuneration committee, a member of strategy and development committee and a member of audit committee of the Board as he intends to focus on other job commitments. Mr. Chen Aiguo confirmed that he has no disagreement with the Board and there are no circumstances related to his resignation which need to be brought to the attention of the shareholders and creditors of the Bank and the Hong Kong Stock Exchange.

Whereas the resignation of Mr. Chen Aiguo will result in the number of independent non-executive Directors of the Bank falling below the minimum number required by the Articles of Association and the Hong Kong Listing Rules, pursuant to relevant laws and regulations and the Articles of Association, Mr. Chen Aiguo will continue to perform his duties as independent non-executive Director and chairman/member of special committees under the Board of Directors, until the appointment of a new independent non-executive Director is approved at the Bank's general meeting and the qualification of director is approved by the CBRC. The Bank will complete the procedures of the appointment of a new independent non-executive Director as soon as practicable according to the provisions of relevant laws and regulations and the Articles of Association, and publish the relevant announcements and circular pursuant to the Hong Kong Listing Rules.



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

### (II) Changes in Supervisors

- (1) In August 2017, Mr. Yang Zhenjun and Mr. Dong Ying were elected as external Supervisors by the shareholders' general meetings of the Bank.
- (2) Mr. Zhu Xingjie tendered his resignation to the Board of Supervisors as an external Supervisor of the Bank, and the director of the audit committee and a member of the supervision committee under the Board of Supervisors on March 27, 2018 because he expects to focus on other affairs. The resignation of Mr. Zhu Xingjie will take effect from the date when the new external Supervisor of the Bank formally assumes his role. Mr. Zhu confirmed that he has no disagreement with the Board and the Board of Supervisors and there are no circumstances related to his resignation which need to be brought to the attention of the shareholders of the Bank, creditors and the Hong Kong Stock Exchange.

The Board of Supervisors approved the proposed appointment of Mr. Luo Yi as an external Supervisor of the Bank at the eighteenth meeting of first session of the Board of Supervisors held on March 27, 2018. For details of the biography and the appointment of Mr. Luo, please refer to the relevant announcement published by the Bank on March 27, 2018. The shareholders of the Bank will consider, among other things, the proposal regarding the appointment of Mr. Luo Yi as a Supervisor of the Bank at the 2017 annual general meeting held on June 1, 2018.

### (III) Changes in Senior Management Members

- (1) Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer. At a meeting of the Board of Directors held on November 9, 2017, the Board of Directors designated Mr. Lei Tie to assume the roles and responsibilities of the president of the Bank in the interim prior to the formal appointment of the new president.
- (2) In July 2017, Mr. Xu Jianping was appointed as the secretary to the Board of Directors by the Board of Directors. In November 2017, Mr. Xu Jianping was appointed as vice president of the Bank by the Board of Directors and primarily responsible for the daily work of the Board and in charge of the office of the Board. In December 2017, the qualification of Mr. Xu Jianping as vice president was approved by the CBRC Gansu Office.
- (3) In November 2017, Mr. Wang Zhiyuan was appointed as the vice president of the Bank by the Board of Directors and primarily responsible for human resources of the Bank. In December 2017, the qualification of Mr. Wang Zhiyuan as vice president was approved by the CBRC Gansu Office.

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

### III. Biographies of Directors, Supervisors and Senior Management Members

#### (I) Biographies of Directors

##### Executive Directors

**Mr. Li Xin** (李鑫), aged 59, was appointed as the chairman of the Board of Directors, secretary to the party committee and president of Dunhuang Bank Co., Ltd. (the former name of the Bank used during the Bank's incorporation process) in May 2011, and has been the chairman of the Board and an executive Director since October 15, 2011. Mr. Li is responsible for presiding over the overall operations of the Bank. He is also primarily responsible for matters concerning the Board of Directors, human resources, strategic planning, business development and party-related matters.

Mr. Li has over 30 years of experience in the financial industry and in management. Prior to joining the Bank, Mr. Li held a number of positions at the Gansu Province Changqing Petroleum Sub-Branch of China Construction Bank Corporation ("CCB") from December 1985 to October 2000, including as staff, deputy head and head of the personnel division, director of the discipline inspection group, member of the party committee, deputy secretary to the party committee, vice president, secretary to the party committee and president. Mr. Li worked at the Gansu Branch of CCB from October 2000 to September 2005, serving as president of the Lanzhou Nanguan Sub-Branch, general manager of the international business department of the provincial branch and president of the Lanzhou Plaza Sub-Branch. He worked at Gansu Province Rural Credit Cooperative Union from September 2005 to May 2011, serving as a member of the party committee, deputy director, deputy secretary to the party committee and director.

Mr. Li obtained a bachelor's degree through correspondence study from the Correspondence Institute of the Party School of the Central Committee of CPC, the PRC, in December 1997, majoring in economic management. He was certified by CCB as a senior economist in December 2002. Mr. Li was awarded the title of "Financier of Longshang" (隴上金融家) by Xinhua News Agency Gansu Bureau, Finance Office of the People's Government of Gansu Province and the Lanzhou Central Sub-Branch of PBoC in February 2015.

**Mr. Lei Tie** (雷鐵), aged 53, has been an executive Director since October 2011. Mr. Lei has also served as a vice president of the Bank since October 15, 2011. On November 9, 2017, the Board of Directors appointed Mr. Lei to assume the roles and responsibilities of the president of the Bank in the interim prior to the formal appointment of the new president. As acting president of the Bank, Mr. Lei is responsible for the overall operation and management of the Bank, implementation of the strategic objectives and overall achievement of the operating objectives of the Bank. As an executive Director and a vice president of the Bank, Mr. Lei is primarily responsible for bank-wide accounting operations, information technology infrastructure, and support and back-up of technological systems. Mr. Lei is also in charge of the accounting and operation department, information technology department, and operating department of the head office of the Bank.

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

Mr. Lei has over 35 years of experience in the financial industry and in management. Prior to joining the Bank, Mr. Lei served as a clerk of the Dingxi Sub-Branch of China Agricultural Bank, clerk of the Lintao Sub-Branch and the Dingxi Sub-Branch of PBoC, as well as the Dingxi Sub-Branch of Industrial and Commercial Bank of China Limited (“ICBC”) from December 1980 to January 1986, deputy head and head of the accounting and credit departments of the Dingxi Sub-Branch of ICBC from January 1986 to September 1989, staff member, senior staff member and principal staff member of the currency issue section of the Gansu Branch of PBoC from September 1989 to December 1998, principal staff member, division head and deputy chief of the money, gold and silver section, deputy chief (presiding over the work) and chief of the investigation and statistics division, director of the general office and director of the office of the party committee of the Lanzhou Central Sub-Branch of PBoC from December 1998 to August 2007. Mr. Lei also served as the secretary to the party committee and president of the Linxia Central Sub-Branch of PBoC, and concurrently the director-general of the Linxia Central Sub-Bureau of the State Administration of Foreign Exchange from August 2007 to June 2009. Mr. Lei was the head of the national treasury division, the organization department and the personnel division of the Lanzhou Central Sub-Branch of PBoC from June 2009 to September 2011.

Mr. Lei obtained an associate degree from Gansu Radio & TV University in Gansu province, the PRC, in July 1986, majoring in finance, a bachelor’s degree through correspondence study from the Correspondence Institute of the Party School of the Central Committee of CPC, the PRC, in June 1992, majoring in economic management, an associate degree from Northwest Minzu Institute (now known as “Northwest Minzu University”) in Gansu province, the PRC, in June 1998, majoring in English for international trade, and a master’s degree in economics from Fudan University in Shanghai, the PRC, in July 1999, majoring in political economics. He was certified as a senior economist by PBoC in October 2001.

### Non-executive Directors

**Ms. Wu Changhong** (吳長虹), aged 54, has been a non-executive Director since November 20, 2016. Ms. Wu is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member.

Ms. Wu has been a member of the party committee and the deputy general manager of Gansu Highway Aviation Tourism since May 2011, and the chief financial officer of Gansu Highway Aviation Tourism since November 2015. She held a number of positions at Jinchuan Group Limited (now known as “Jinchuan Group”) from July 1984 to May 2011, including accountant of the cost division of the finance department, deputy head and head of the capital division of the finance and audit department, head of the assets management division of the finance and audit department, deputy director of the finance department and general manager of the audit department.

Ms. Wu obtained a bachelor’s degree from the Party School of Gansu Province Committee of CPC, the PRC, in December 1998, majoring in enterprise management. She was certified as a senior accountant by the Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in November 1998.

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

**Ms. Zhang Hongxia** (張紅霞), aged 39, has been a non-executive Director since October 15, 2011. Ms. Zhang is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member.

Ms. Zhang has been a deputy director (presiding over the work) of the office of the board of directors of Baoshang Bank since August 2008. She served as an officer of the human resources department and director of the department of party affairs of Baoshang Bank from November 1998 to July 2008.

Ms. Zhang obtained a bachelor's degree from Inner Mongolia College of Finance and Economics (currently known as "Inner Mongolia University of Finance and Economics") in the Inner Mongolia Autonomous Region, the PRC, in January 2006, majoring in finance, and a master's degree from Inner Mongolia University of Technology in the Inner Mongolia Autonomous Region, the PRC, in July 2011, majoring in business administration. She was certified as an economist by the Ministry of Human Resources of the PRC (currently known as "Ministry of Human Resources and Social Security of the PRC") in November 2003.

**Mr. Li Hui** (李輝), aged 58, has been a non-executive Director since October 15, 2011. Mr. Li is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

Mr. Li has been the general manager of Gansu Electric Power Investment since May 2015. Mr. Li served as secretary to the party committee and general manager of Gansu Electric Power Investment Darong Electric Power Co., Ltd. from September 2004 to July 2009.

Mr. Li obtained a bachelor's degree through correspondence study from the Correspondence College of the Party School of the Central Committee of CPC, the PRC, in December 2001, majoring in economic management and a master's degree from the Chinese People's Liberation Army Air Force Engineering University in Shaanxi province, the PRC, in July 2006, majoring in management science and engineering. Mr. Li also obtained a master's degree from Tsinghua University in Beijing, the PRC, in January 2014, majoring in business administration. Mr. Li was honored as "Leading Talent of Gansu Province" by the CPC Gansu Provincial Committee and the People's Government of Gansu Province in May 2015.

**Mr. Guo Jirong** (郭繼榮), aged 47, has been a non-executive Director since November 20, 2016. Mr. Guo is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

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

Mr. Guo has been the head of the asset operation and management department of Jiuquan Iron & Steel since June 2016 and director of Gansu Jiuquan Steel Group Hongxing Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600307) since August 2017. He served as the deputy head of the capital division of the finance section and head of the accounting and information division of Baiyin Nonferrous Metals Company (now known as “Baiyin Nonferrous Group Co., Ltd.”) from July 1995 to November 2002, audit project manager of Wulian United Accounting Firm (now known as “Ruihua Certified Public Accountants”) from November 2002 to May 2004, assistant senior staff and deputy senior staff of the finance department, deputy director of the property management commission, deputy director of property management department, director of the directors and supervisors office and deputy director of the asset operation and management department of Jiuquan Iron & Steel from May 2004 to June 2016. Mr. Guo also served as the chief accountant, chief financial officer and chief of the finance section of Gansu Jiuquan Steel Group Hongxing Iron & Steel Co., Ltd. from December 2009 and March 2013.

Mr. Guo obtained a bachelor’s degree in economics from Shanxi Institute of Finance and Economics (now known as “Shanxi University of Finance and Economics”) in Shanxi province, the PRC, in July 1995, majoring in accounting. Mr. Guo was certified as an accountant by the MOF in May 1998 and a public accountant by the Certified Public Accountant Examination Board of the MOF in March 2004.

**Mr. Zhang Youda** (張有達), aged 44, has been a non-executive Director since November 20, 2016. Mr. Zhang is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

Mr. Zhang has been the general manager of the finance department of Jinchuan Group since December 2011. He served as deputy head and head of the finance division of the testing center, head of the finance division of the smelting plant of Jinchuan Group, head of the cost division of the finance department, deputy director of the finance department and deputy general manager of the finance department (presiding over the work) of Jinchuan Group from April 2002 to December 2011.

Mr. Zhang obtained a bachelor’s degree from Lanzhou University of Technology in Gansu province, the PRC, in July 2004, majoring in accounting, and a master’s degree from Lanzhou University in Gansu province, the PRC, in June 2010, majoring in business administration. Mr. Zhang was certified as a senior accountant by the Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in December 2009, a senior economist by China Nonferrous Metals Industry Association in November 2008, and a senior accountant by the Gansu Province Professional Title Reform Office in July 2017.

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

### Independent Non-executive Directors

**Mr. Chen Aiguo** (陳愛國), aged 48, has been an independent non-executive Director since November 20, 2016. Mr. Chen is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on strategic development to the Bank based on his extensive experience in business management, and performs his duties as a Director through the Board of Directors, Strategy and Development Committee, Audit Committee, and Nomination and Remuneration Committee.

Mr. Chen has been a director of China CEFC Energy Company Limited and an executive director of CEFC Shanghai International Group Limited since August 2014. Mr. Chen served as chairman of Xiangcai Qinian Futures Brokerage Limited (now known as “Changjiang Futures Co., Ltd.”) from July 2006 to October 2012, as well as vice president (presiding over the work) of Wuhan Financial Assets Exchange Co., Ltd. from November 2012 to May 2014.

Mr. Chen obtained a bachelor's degree in economics from Beijing Institute of Business (now known as “Beijing Technology and Business University”) in Beijing, the PRC, in July 1992, majoring in commerce and economics, and a master's degree from Zhejiang University in Zhejiang province, the PRC, in September 2012, majoring in business management.

**Ms. Tang Xiuli** (唐岫立), aged 49, has been an independent non-executive Director since August 12, 2017. Ms. Tang is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing regulatory and compliance-related advice to the Bank based on her extensive experience in banking regulation in the PRC, and performs her duties as a Director through the Board of Directors, Audit Committee and Related Party Transaction and Risk Management Committee.

Ms. Tang is the senior vice president and chief policy officer of Zillion Financial Network Technology Group Limited (資邦金服網絡科技集團有限公司). Ms. Tang has many years of experience in banking regulation in the PRC. She worked at the Heilongjiang Branch and Shenyang Branch of the PBoC in the 1990s. She also previously worked at the CBRC. Ms. Tang was a member of the party committee and vice president of Bank of Wenzhou Co., Ltd. from July 2012 to December 2015.

Ms. Tang obtained a bachelor's degree in economics from Dongbei University of Finance and Economics in Liaoning province, the PRC, in July 1991, majoring in information system, a master's degree in economics from Dongbei University of Finance and Economics in April 2006, majoring in finance, and a doctorate's degree in economics from Dongbei University of Finance and Economics in June 2014, majoring in finance. Ms. Tang was certified as a senior economist by PBoC in November 2003.

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**Ms. Luo Mei** (羅玫), aged 42, has been an independent non-executive Director since August 12, 2017. Ms. Luo is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on finance and accounting to the Bank based on her extensive experience in finance and accounting, and performs her duties as a Director through the Board of Directors, Audit Committee, Nomination and Remuneration Committee and Related Party Transaction and Risk Management Committee.

Ms. Luo joined Tsinghua University in June 2007 and is currently an associate professor of the Department of Accounting at the School of Economics and Management of Tsinghua University, and the academic coordinator of the Master of Professional Accounting (MPAcc) program at Tsinghua University since September 2011. Ms. Luo has been an independent director of Beijing Gehua CATV Network Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600037) since March 2013. Ms. Luo was an independent director of Beijing Baofeng Technology Co., Ltd. (now known as Baofeng Group Co., Ltd., a company listed on the Shenzhen Stock Exchange, stock code: 300431) from June 2013 to December 2014.

Ms. Luo obtained a bachelor's degree from the School of Economics and Management of Tsinghua University in Beijing, the PRC, in June 1998, majoring in accounting (international accounting), and a doctorate's degree in business management from the University of California Berkeley in California, the U.S., in December 2004, majoring in accounting and finance. In 2011, Ms. Luo was included in the Marquis Who's Who in America 2011.

**Mr. Wong Sincere** (黃誠思), aged 53, has been an independent non-executive Director since August 12, 2017. Mr. Wong is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank in relation to compliance with Hong Kong laws and the Hong Kong Listing Rules based on his extensive experience in legal and compliance works, and performs his duties as a Director through the Board of Directors, Nomination and Remuneration Committee and Related Party Transaction and Risk Management Committee.

Mr. Wong became the founder and has been the principal of Sincere Wong & Co. since May 2016. He was an in-house counsel for Hutchison Whampoa Group from September 1996 to January 2005 and China Resources Enterprise, Limited (now known as China Resources Beer (Holdings) Company Limited) from February 2005 to November 2006, chief legal officer of Shui On Construction and Materials Limited from November 2006 to June 2010, as well as the head of the legal department and company secretary of Sateri Holdings Limited (a company previously listed on the Hong Kong Stock Exchange, the name of which was later changed to Bracell Limited but has subsequently been privatized) from July 2010 to May 2011. He worked at the Hong Kong Stock Exchange from August 2011 to April 2016, and was a vice president of Listing & Regulatory Affairs Division at the time of his departure from the Hong Kong Stock Exchange, primarily responsible for reviewing listing applications and providing recommendations to the Listing Committee of the Hong Kong Stock Exchange regarding listing applications.

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Mr. Wong obtained a bachelor's degree of social science from the Chinese University of Hong Kong in Hong Kong in December 1986. He passed the Common Professional Examination in Wolverhampton Polytechnic (now known as University of Wolverhampton) in July 1990, and the Solicitors' Final Examination of the Law Society of England and Wales with first class honors in October 1991. Mr. Wong was admitted as a solicitor of Hong Kong and England and Wales in October 1993 and February 1994, respectively.

### (II) Biographies of Supervisors

**Mr. Yang Qian** (楊乾), aged 60, has been the chairman of the Board of Supervisors and employee representative Supervisor since October 15, 2011. Mr. Yang is responsible for overall work of the Board of Supervisors and supervising the work of the Board of Directors and management to ensure compliance with laws and regulations. Mr. Yang is also in charge of the audit, institution management and security departments of the head office.

Mr. Yang worked as a cadre at the Education Bureau and the district committee office, deputy director of the district committee office and deputy head of the organization department of Baiyin District of Lanzhou City, Gansu province from July 1980 to December 1986, head of the organization division of the organization department of Baiyin City Party Committee of Gansu Province from December 1986 to April 1987, head of the organization department of Pingchuan District Committee of Baiyin City, Gansu province from April 1987 to December 1989, and director of the general office of Baiyin Association for Science and Technology of Gansu Province from December 1989 to September 1994. Mr. Yang was head of the secretariat division of the party committee office, deputy head of the personnel and education section, the organization department of the party committee, and the publicity department, head of the publicity department, deputy secretary of the party committee and head of the president's office of the Gansu Branch of Bank of China from September 1994 to September 2011.

Mr. Yang obtained a bachelor's degree through correspondence study from the Correspondence Institute of the Party School of the Central Committee of CPC, the PRC, in December 2002, majoring in economic management. He was certified as a political adviser (政工師) by the Professional Qualification Evaluation Committee of Intermediate Enterprise Political Adviser of Baiyin City (白銀市企業政工中級專業職務資格評審委員會) in April 1992.

**Mr. Xu Yongfeng** (許勇鋒), aged 53, has been an Employee Representative Supervisor of the Bank since October 15, 2011, primarily responsible for supervising the Board of Directors and the senior management on behalf of the employees of the Bank. Mr. Xu has been the general manager of the Institution Management Department of the Bank since February 2013, and the general manager of the Security Department of the Bank since September 2015.

Mr. Xu joined the Bank in October 2011, and was the deputy secretary to the party committee and vice president of the Pingliang Branch of the Bank from November 2011 to February 2013. Mr. Xu served as a clerk at the credit unit of the Pingliang Ankou Office of PBoC from November 1981 to July 1984 and a clerk at the credit unit of the Ankou Office of Industrial and Commercial Bank of China from July 1984 to July 1989. He was a staff member, deputy head and head at the integrated division of Pingliang Commission for Institutional Reform of Gansu Province from July 1989 to November 1998, head of the



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business branch of Pingliang Central Urban Credit Union of Gansu Province from November 1998 to January 2003, chief supervisor of Pingliang Urban Credit Union of Gansu Province from January 2003 to December 2008, and president of Pingliang Commercial Bank from December 2008 to October 2011.

Mr. Xu obtained a bachelor's degree from Gansu Radio & TV University in Gansu province, the PRC, in June 2004, majoring in finance.

**Mr. Luo Zhenxia** (羅振夏), aged 53, has been an employee representative Supervisor of the Bank since October 15, 2011, primarily responsible for supervising the Board of Directors and the senior management on behalf of the employees of the Bank. Mr. Luo has been secretary to the party committee of the Hongyuan Road Sub-Branch of the Bank since January 2015 and president of the Hongyuan Road Sub-Branch of the Bank since April 2015.

Mr. Luo joined the Bank in October 2011. He was the deputy secretary to the party committee and vice president of the Baiyin Branch of the Bank from November 2011 to February 2013, and was the general manager of the Security Department of the Bank from February 2013 to January 2015. Prior to joining the Bank, Mr. Luo was a teacher at Guocheng Agricultural Middle School in Huining County of Baiyin City, Gansu province from July 1982 to January 1986, a cadre at the Huining County Committee of the Communist Youth League of China from January 1986 to November 1987, a staff member in the planning division and deputy head of the integrated planning division of the Baiyin Branch of PBoC from November 1987 to November 1994, deputy director and director of Urban Credit Union of Baiyin District of Baiyin City of Gansu Province and member of the party leadership group, member of the party committee, deputy general manager, general manager and director of Urban Credit Union of Baiyin City of Gansu Province from November 1994 to November 2010. He was a member of the party committee, president and director of Baiyin Commercial Bank from November 2010 to November 2011.

Mr. Luo obtained a bachelor's degree through correspondence study from the Correspondence Institute of the Party School of the Central Committee of CPC, the PRC, in December 1995, majoring in economics.

**Mr. Liu Yongchong** (劉永翀), aged 51, has been a shareholder Supervisor of the Bank since November 20, 2016. Mr. Liu is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Liu has been the chief financial officer of Jingyuan Coal Industry Group Limited since June 2015. He served as staff of the finance department, deputy senior staff member, deputy head and head of the assets and finance department and director of the accounting management center of Jingyuan Coal Industry Limited (currently known as "Jingyuan Coal Industry Group Limited") from July 2001 to November 2012. Mr. Liu was the chief financial officer, head of the assets and finance department, director of the accounting management and assets operation and management centers of Gansu Jingyuan Coal Industry and Electricity Power Co., Ltd. from November 2012 to June 2015.

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Mr. Liu completed all the courses for the undergraduate self-study examination in financial accounting hosted by Lanzhou Commercial College (now known as “Lanzhou University of Finance and Economics”) in Gansu province, the PRC, in July 1998.

**Mr. Li Yongjun** (李永軍), aged 49, has been a shareholder Supervisor of the Bank since October 15, 2011. Mr. Li is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Li has been the chairman of Yong Xin Hua Holdings Co., Ltd. since October 1997, and was the general manager of Gansu Yong Xin Construction Installation Engineering Company Limited from April 1991 to October 1997.

Mr. Li completed the master’s course for business administration for senior management in Cheung Kong Graduate School of Business in Beijing, the PRC, in September 2008. Mr. Li was certified as a senior engineer by Gansu Province Professional Title Reform Leading Group (甘肅省職稱改革工作領導小組) in January 2001.

**Mr. Liu Xiaoyu** (劉曉宇), aged 45, has been a shareholder Supervisor of the Bank since November 20, 2016. Mr. Liu is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Liu has been the head of the planning and financing department of Readers Publishing Group Limited since October 2011. He was a cashier and an accountant in the finance department of Gansu People’s Publishing House (later restructured into “Readers Publishing Group Limited”) from June 1996 to January 2008, deputy head of the planning and financing department of Readers Publishing Group Limited from February 2008 to December 2009, and deputy head of the finance department of DuZhe Publishing & Media Co., Ltd. from January 2010 to September 2011.

Mr. Liu obtained a bachelor’s degree from Shaanxi Institute of Finance and Economics (now known as “School of Economics and Finance of Xi’an Jiaotong University”) in Shaanxi province, the PRC, in July 1993, majoring in public finance. He was certified as a senior accountant by the Department of Human Resources of Gansu Province in December 2009.

**Mr. Zhu Xingjie** (朱興杰), aged 63, has been an external Supervisor of the Bank since October 15, 2011. Mr. Zhu is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Zhu has been the chairman, general manager and secretary of the party committee of Gansu Heihe Hydropower Industrial Investment Co., Ltd. (previously known as Gansu Heihe Hydropower Development Co., Ltd.) since August 2000, and the chairman and general manager of Zhangye Electric Power Development Co., Ltd. from August 1999 to March 2000.

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Mr. Zhu obtained an associate degree through correspondence study from Gansu University of Technology in Gansu province, the PRC, in December 1999, majoring in management of power utilization.

**Mr. Yang Zhenjun** (楊振軍), aged 48, has been an external Supervisor of the Bank since August 12, 2017. Mr. Yang is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Yang has been the director of the Dingxi Urban Construction and Investment Operation Management Office of Gansu Province since August 2015, and the secretary of the party leadership group of Dingxi Urban Construction and Investment Operation Management Office of Gansu Province since February 2016. Mr. Yang was a cadre in Shouyang Township Government of Longxi County, a full-time judicial assistant, a cadre in the county government office, deputy mayor of Gongchang Town, secretary of the Youth League Committee of Longxi County, deputy secretary of the party committee, mayor and secretary to the party committee of Shouyang Town, Longxi County, member of the standing committee CPC county and secretary to the politics and law commission of Longxi County of Dingxi District, Gansu province from July 1989 to November 2006. Mr. Yang was a member of the standing committee of CPC Anding District Committee, secretary of the politics and law commission, secretary of the discipline inspection commission and deputy district head of Anding District of Dingxi City, Gansu province from November 2006 to August 2015.

Mr. Yang obtained an associate degree through correspondence study from the Party School of Gansu Province Committee of CPC, the PRC, in December 1998, majoring in economic management, a bachelor's degree through correspondence study from the Correspondence School of the Party School of Gansu Province Committee of CPC, the PRC, in December 2001, majoring in law, and a master's degree from the Party School of Gansu Province Committee of CPC, the PRC, in June 2009, majoring in jurisprudence.

**Mr. Dong Ying** (董英), aged 54, has been an external Supervisor of the Bank since August 12, 2017. Mr. Dong is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Dong has been a director of Wuwei Economic Development and Investment (Group) Co., Ltd. ("Wuwei Economic Development and Investment") since June 2015, deputy general manager of Wuwei Economic Development and Investment since May 2013 and executive deputy general manager of Wuwei Economic Development and Investment since November 2016. Mr. Dong has also been an executive director (legal representative) of Wuwei Testing Center of Quality of Urban-Rural Construction Projects since December 2016. Mr. Dong was head of the marketing department of Wuwei Urban Construction & Investment (Group) Co., Ltd. from February 2004 to March 2008, director of the general office of Wuwei Economic Development Investment from March 2008 to July 2015, as well as chairman of the labor union, deputy secretary-general and secretary of the party branch of Wuwei Economic Development Investment at the same time from September 2010 to June 2015.

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Mr. Dong completed the undergraduate course in economic management at the Party School of the Gansu Province Committee of CPC in Gansu province, the PRC, in December 2002. He was certified as an economist by Professional Title Reform Leading Group of Township Enterprise Management Bureau of Gansu Province (甘肅省鄉鎮企業管理局職稱改革領導小組) and Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in December 2004.

### (III) Biographies of Senior Management Members

For the biography of Mr. Lei Tie, please refer to “— III. Biographies of Directors, Supervisors and Senior Management Members — (I) Biographies of Directors — Executive Directors” in this chapter.

**Mr. Qiu Jinhu** (仇金虎), aged 53, has been the vice president of the Bank since January 2015. Mr. Qiu is primarily responsible for labor union-related works and business of loans to small and medium-sized enterprises and individuals. Mr. Qiu is also in charge of the Retail Business Financial Service Center of the Bank.

Mr. Qiu served as a credit clerk, an accountant and head of Qinyu Credit Union of Dangchang County, Gansu province from January 1980 to June 1994, head of the business and operation department of Dangchang County Rural Credit Union of Gansu Province from June 1994 to March 1996, deputy head of Dangchang County Rural Credit Union of Gansu Province from March 1996 to October 2000, deputy head of Kang County Rural Credit Union of Gansu Province from October 2000 to September 2004, and secretary to the party committee and director-general of Xihe County Rural Credit Union of Gansu Province from September 2004 to April 2009. He successively served as the secretary to the party committee and director-general of Chengguan District Rural Credit Union of Lanzhou City, Gansu province, and the director of the party committee office, general manager of the integrated management department and director assistant of Gansu Province Rural Credit Cooperative Union from April 2009 to January 2015.

Mr. Qiu obtained a bachelor's degree through online education from Lanzhou University in Gansu province, the PRC, in January 2013, majoring in finance and a master's degree in business management from Lanzhou University in December 2013.

**Mr. Wang Chunyun** (王春雲), aged 45, has been the Chief Risk Officer of the Bank since October 2016. Mr. Wang is primarily responsible for comprehensive risk management, legal and compliance and investment banking business of the Bank. Mr. Wang is also in charge of the Risk and Credit Management Department, Investment Banking Department and Legal and Compliance Department of the Bank.

Mr. Wang served as the general manager of the Risk and Credit Management Department of the Bank from October 2011 to October 2016. Prior to joining the Bank, between July 1996 and July 2008, he served as a staff member in the project evaluation division and the integrated section of the risk management division, deputy head of the credit information management section of the credit risk management division, business manager of the risk management department, assistant to the general manager of the asset preservation department, deputy general manager of the asset preservation department,

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and head of the asset preservation department of the Gansu Branch of CCB. Mr. Wang served as the general manager of the risk management department of the Lanzhou Branch of Shanghai Pudong Development Bank Co., Ltd. from July 2008 to October 2011.

Mr. Wang obtained a bachelor's degree from Hunan University in Hunan province, the PRC, in July 1996, majoring in applied mathematics. Mr. Wang was accredited as an engineer by the Gansu Branch of China Construction Bank Corporation in July 1998.

**Mr. Wang Zhiyuan** (王志遠), aged 48, has been a vice president of the Bank since December 2017. Mr. Wang is primarily responsible for human resources of the Bank.

Mr. Wang was the principal head of the human resources department of the Bank from April 2012 to June 2012, the head of the organization department of the party committee and the general manager of the human resources department of the Bank from June 2012 to September 2012, a member of the discipline inspection commission, the head of the organization department of the party committee and the general manager of the human resources department of the Bank from September 2012 to September 2014, a member of the discipline inspection commission, the head of the organization department of the party committee, the general manager of the human resources department and the general manager of the strategy and development department (concurrently) of the Bank from September 2014 to December 2016, and a member of the party committee, a member of the discipline inspection commission, the head of the organization department of the party committee, the general manager of the human resources department and the general manager of the strategy and development department (concurrently) of the Bank from December 2016 to November 2017. Mr. Wang held a number of positions at China Construction Bank from July 1992 to January 2000, including a staff member of Lanzhou Railway Sub-Branch, office secretary of Gansu Branch, head of the cadre division of the Office of Personnel of Gansu Branch, deputy chief of the Office of Personnel and head of the cadre division of Gansu Branch. Mr. Wang worked at the Lanzhou office of China Cinda Asset Management Corporation (currently known as "China Cinda Asset Management Co., Ltd.") from January 2000 to June 2008, successively serving as senior manager (department-level) of the investment banking department, head of the first business department and director of the integrated management department thereof. Mr. Wang worked at Lanzhou Branch of Shanghai Pudong Development Bank Co., Ltd. ("SPDB Lanzhou Branch") from July 2008 to June 2009, successively being in charge of the works of the general office of SPDB Lanzhou Branch (in establishment) and serving as the director of the general office of SPDB Lanzhou Branch.

Mr. Wang obtained a bachelor's degree from Lanzhou University in Gansu province, the PRC, in June 1991, majoring in philosophy.

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**Mr. Xu Jianping** (許建平), aged 47, has been the director of the general office (office of the party committee) of the Bank since February 2015, the director of the office of the Board of Directors since January 2017, has been appointed as the joint company secretary of the Bank since June 2017 and the secretary to the Board of Directors since July 2017. Mr. Xu has also been a vice president of the Bank since December 2017. Mr. Xu is responsible for the daily work of the Board and in charge of the office of the Board.

Mr. Xu joined the Bank in February 2012. He served as the general manager of the corporate business department of the Bank from June 2012 to February 2015. Prior to joining the Bank, Mr. Xu served as a staff, an investment credit clerk and an office secretary of Huodian Office of the Lanzhou Electric Power Sub-Branch of CCB from July 1992 to October 1994. He served as the office secretary, deputy head, head and deputy director of the secretariat division, and deputy general manager and general manager of the legal affairs department of the Gansu Branch of CCB from October 1994 to August 2007, secretary of the party committee and president of the Dingxi Branch of CCB from August 2007 to December 2009. Mr. Xu was the secretary to the party committee, president and lead coordinator of marketing services team of Lanzhou New Area of the Lanzhou Chengguan Sub-Branch of CCB from June 2010 to February 2012.

Mr. Xu obtained a bachelor's degree in law from Lanzhou University in Gansu province, the PRC, in June 1992, majoring in law, and a master's degree in business administration from Lanzhou University in June 2011. In August 2011, Mr. Xu was certified as an economist by Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室).

### Joint Company Secretaries

**Mr. Xu Jianping** (許建平), aged 47, has been appointed as a joint company secretary of the Bank since June 2017. For the biography of Mr. Xu, please refer to “— III. Biographies of Directors, Supervisors and Senior Management Members — (III) Biographies of Senior Management Members” in this chapter.

As Mr. Xu does not meet the qualifications specified in Rules 3.28 and 8.17 of the Hong Kong Listing Rules, the Bank has applied to Hong Kong Stock Exchange and has been granted by the Hong Kong Stock Exchange exemption from strict compliance with the relevant rules.

**Ms. Ko Nga Kit** (高雅潔) currently is a vice president of SW Corporate Services Group Limited and has over 25 years of experience in the corporate services field. She is a fellow member of both The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. In addition, she holds a bachelor's degree in laws and a post-graduate diploma in corporate compliance.

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### IV. Remuneration Policies for Directors, Supervisors and Senior Management

The remuneration provided by the Bank for its executive Directors, employee representative Supervisors and senior management who are also the Bank's employees concurrently include salaries, discretionary bonus, social security plans, housing provident fund plans and other benefits. The remuneration provided by the Bank for its non-executive Directors, independent non-executive Directors and other Supervisors are determined by their responsibilities.

The remuneration of the Directors of the Bank is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination and Remuneration Committee under the Board of Directors and submitted to the Board of Directors for approval, and submitted to the shareholders' general meeting for approval after being approved by the Board of Directors.

The remuneration of the Supervisors of the Bank is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination Committee under Board of Supervisors and submitted to the Board of Supervisors for approval, and submitted to the shareholders' general meeting for approval after being approved by the Board of Supervisors.

The Bank's appraisal on the senior management is based on their performance in completing the decisions, strategic targets and plans of the Board of Directors and whether they are actively and effectively protecting the interests of the Bank and the Shareholders, and it is implemented by the Board of Directors.

The incentive and restraint mechanism of the Bank is mainly embodied in the remuneration mechanism for the senior management. The remuneration to the senior management is linked to the appraisal indicators of the Board of Directors, in order to combine the target incentive with responsibility restraint, ensure the alignment of the remuneration payment with the long-term interests of the Bank, and better encourage the senior management to contribute to the steady and sustainable development of the Bank.

According to the relevant regulations, the premiums and welfare benefit contributions borne by the Group are calculated on a certain percentage of the remuneration cost and paid to the relevant labor and social welfare authorities. The Group cannot withdraw or utilize its fund contribution made to above defined contribution plans under any circumstances.

### V. Compensation of Directors and Supervisors and Five Individuals with the Highest Emoluments of our Bank

For detailed compensation of Directors and Supervisors and five individuals with the highest emoluments in the Bank, please refer to notes 12 and 13 to consolidated financial statement included in this annual report.

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### VI. Positions held in the Shareholder Company by the Directors, Supervisors and Senior Management

Name	Position held with the Bank	Name of the shareholder company	Position held in the shareholder company
Ms. Wu Changhong	Non-executive Director	Gansu Highway Aviation Tourism	Member of the party committee, deputy general manager and chief financial officer
Ms. Zhang Hongxia	Non-executive Director	Baoshang Bank	Deputy director (presiding over the work) of the office of the board of directors
Mr. Li Hui	Non-executive Director	Gansu Electric Power Investment	General manager
Mr. Guo Jirong	Non-executive Director	Jiuquan Iron & Steel	Head of the asset operation and management department
Mr. Zhang Youda	Non-executive Director	Jinchuan Group	General manager of the finance department

### VII. Other Information Required under Rule 13.51(2) of the Hong Kong Listing Rules

**Mr. Zhu Xingjie** (朱興杰) was the chairman and general manager of Zhangye Electric Power Development Co., Ltd. (張掖市電力開發有限責任公司), a limited liability company incorporated in the PRC on August 3, 1999, mainly engaged in hydroelectric power generation, which was dissolved by way of deregistration on March 10, 2000. Mr. Zhu confirmed that there is no wrongful act on his part leading to the dissolution, which was mainly due to the establishment of Gansu Heihe Hydropower Industrial Investment Co., Ltd. (previously known as Gansu Heihe Hydropower Development Co., Ltd.) to carry out the relevant businesses. Mr. Zhu is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolutions. Mr. Zhu also confirmed that his involvement in the above company was part of his services as the chairman and general manager of this company and that no misconduct or misfeasance had been involved in the dissolution of this company, and that the relevant company was solvent at the time of deregistration.

**Mr. Wong Sincere** (黃誠思) was a director of Excellent View Limited (采風有限公司), which was incorporated in Hong Kong as a private company limited by shares on October 17, 2003 and was dissolved by deregistration on December 22, 2006 pursuant to the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before March 3, 2014. Excellent View Limited provided football related information to users via telephone. Mr. Wong confirmed that the said company was solvent with no outstanding liabilities at the time of its deregistration and as far as he is aware, the dissolution of the said company has not resulted in any liability or obligation to be imposed against him.



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

### VIII. Employee, Employee Compensation Policy and Employee Training Program

#### (I) Staff Composition

As of December 31, 2017, the Group had 3,955 employees. The table below sets forth its number of full-time employees by function as of the same date:

	Number of employees	Percentage (%)
Corporate banking	537	13.58
Retail banking	348	8.80
Financial market operations	43	1.09
Finance and accounting	197	4.98
Risk management, internal audit and legal and compliance	178	4.50
Information technology	132	3.34
Management	138	3.49
Bank Teller	1,887	47.71
Others	495	12.51
<b>Total</b>	<b>3,955</b>	<b>100.00</b>

We have a young and highly educated team of employees. As of December 31, 2017, the average age of our employees was 31.5, and over 88.34% of them had a bachelor's degree or higher. The following table sets forth the number of our employees by age as of December 31, 2017.

	Number of employees	Percentage (%)
Under 30 (inclusive)	2,432	61.49
31 to 40 years old	860	21.74
41 to 50 years old	592	14.97
Above 50 (exclusive)	71	1.80
<b>Total</b>	<b>3,955</b>	<b>100.00</b>

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

The following table sets forth the number of our employees by education degree as of December 31, 2017.

	Number of employees	Percentage (%)
Master's degree or higher	258	6.52
Bachelor's degree	3,236	81.82
Others	461	11.66
<b>Total</b>	<b>3,955</b>	<b>100.00</b>

### (II) Employee Remuneration

Our employees participate in employee benefit plans, such as pension insurance, corporate annuity funds, housing provident funds, work related injury insurance, medical insurance, unemployment insurance and maternity insurance.

We conduct performance evaluations of employees on an annual basis to provide feedback based on the evaluations. Remuneration for full-time employees typically consists of a base salary and performance-based compensation.

### (III) Employee Training Program

We focus on employee career development and provide training programs for employees in different business lines. We have built a team of internal training providers under our human resources department.

### (IV) Labor Union

We have established a labor union in accordance with PRC laws and regulations. We believe that we have maintained a good working relationship with our employees. As of the Latest Practicable Date, we had not experienced any labor strikes or other labor disturbances that materially affected our operations or public image.

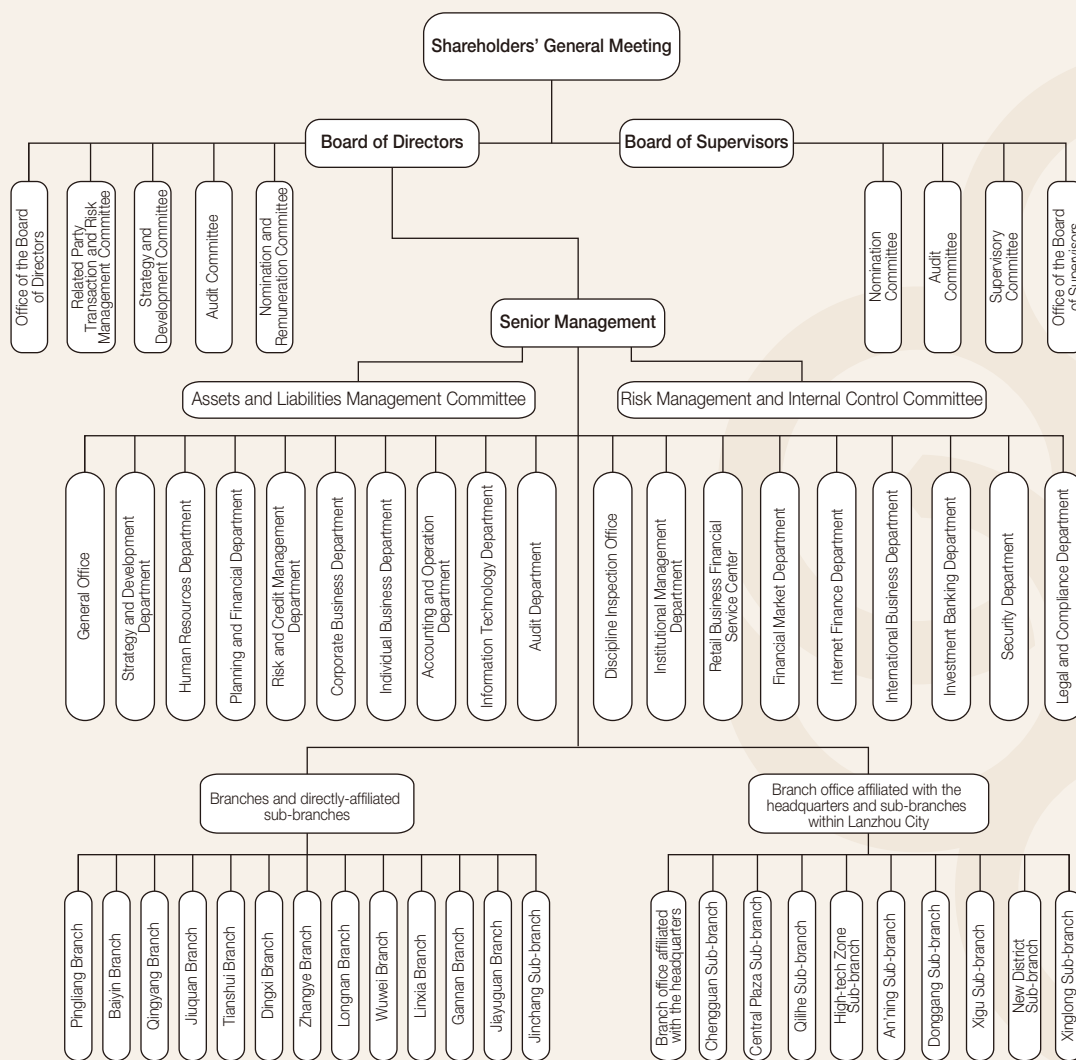
## VIX. The Subsidiary of the Bank

As of the Latest Practicable Date, Jingning Chengji Rural Bank was the sole subsidiary of the Bank. The Bank holds 62.73% equity interest in Jingning Chengji Rural Bank, the financials of which have been consolidated into the Bank's financial statements. Jingning Chengji Rural Bank was established on September 18, 2008, which was originally a subsidiary of Pingliang City Commercial Bank. It offers local corporate and retail customers diversified financial products and services, including loans, deposits and fee- and commission-based products and services.

# Chapter 9 Corporate Governance Report

## I. Corporate Governance Structure

The following chart sets forth the Bank's principal organizational and management structure as of the Latest Practicable Date:



## Chapter 9 Corporate Governance Report

### II. Corporate Governance

#### (I) Overview

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

The Bank has established a modern corporate governance structure in line with the requirements of its Articles of Association, PRC laws and regulations and the Hong Kong Listing Rules. The Board of Directors is accountable to the Shareholders as a whole and is responsible for, among others, determining the Group's business development strategies, business plans and investment proposals, appointing or removing senior management, and deciding matters such as internal management departments. The Board of Directors has established committees to perform specified functions consisting of the strategy and development committee, audit committee, nomination and remuneration committee, related-party transaction and risk management committee. The Board of Supervisors is accountable to the Shareholders as a whole and has the responsibility and power to supervise the Directors and senior management and oversee the Group's financial activities, risk management and internal control.

The Bank has incorporated the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by the CBRC (the "Guidelines") into the Bank's governance structure and policies. The Corporate Governance Code and Guidelines are well reflected in the Articles of Association and the Terms of Reference of the Shareholders' General Meeting, the Board of Directors and committees under the Board of Directors. The Bank's Shareholders' general meeting, the Board of Directors and the Board of Supervisors perform their respective duties, forming good corporate governance structure. The Bank closely monitors its operation to ensure it complies with the relevant requirements under applicable laws, regulations, codes, guidelines and the Bank's internal policies.

As H shares of the Bank have been listed on the Main Board of the Hong Kong Stock Exchange on January 18, 2018, some provisions contained in the Corporate Governance Code are not applicable to the Bank during the Reporting Period. The Bank has established and improved the corporate government structure and established a series of corporate government system according to Corporate Governance Code and Guidelines of the Hong Kong Listing Rules. Our Directors believe, since the Listing Date, the Bank has complied with all compulsory code provisions contained in the Corporate Governance Code. The Bank has also strictly complied with the provisions regarding management of inside information required by applicable laws and regulations and the Hong Kong Listing Rules.

The Bank will review its corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code and the Guidelines and meet the higher expectations from its Shareholders and potential investors.

## Chapter 9 Corporate Governance Report

### (II) The Board Diversity Policy

The Bank understands and believes that the diversity of the members of the Board of Directors could improve the performance of the Bank. It is critical to have a diversified Board of Directors for the Bank to achieve sustainable development and its strategic objectives and maintain good corporate governance. In respect of appointing the Directors, the Bank will consider the diversity of the members in various aspects including but not limited to gender, age, cultural and educational background, region, professional experience, skills, knowledge, service term and any other factors that the Board may consider relevant and applicable from time to time for achieving a diverse Board of Directors. The Directors are appointed on the basis of their qualifications, skills and experience. The Directors are selected according to a series of diversification basis including but not limited to gender, age, cultural and educational background, region, professional skills, knowledge and service term.

The Nomination and Remuneration Committee of the Board is responsible for preparing the selection procedure and standard of the Directors, President and other senior management of the Bank and having preliminary review on the qualification and conditions of Directors, President and other senior management. It reviews the structure, number of members, and composition (including the skills, knowledge and experience) of the Board of Directors and management level according to the experiences, asset scale and shareholding structure of the Bank at least every year and makes recommendations to the Board of Directors relating to the proposed changes to the Board of Directors based on the Bank's strategies.

The Board Diversity Policy shall be complied with when the Nomination and Remuneration Committee of the Board of Directors makes recommendations on the candidates. The Nomination and Remuneration Committee is responsible for monitoring the implementation of the diversity policy and reviewing the policy regularly to ensure its effectiveness. The Nomination and Remuneration Committee of the Board of Directors will discuss any amendments to the diversity policy and make recommendations to the Board of Directors for approval.

### (III) General Meeting of the Bank

During the Reporting Period and up to the date of this annual report, the Bank convened a total of three shareholders' general meetings (two of which were convened during the Reporting Period), the details of which are set out as follows:

#### (1) The First Extraordinary General Meeting for 2017

The first extraordinary general meeting of the Bank for 2017 was convened on February 21, 2017, at which the Resolution on Launching the IPO and Listing of Bank of Gansu Co., Ltd. was considered and approved by the Shareholders.

## Chapter 9 Corporate Governance Report

### (2) The Shareholders' General Meeting for 2016

The shareholders' general meeting of the Bank for 2016 was convened on June 1, 2017, at which the following resolutions were considered and approved by the Shareholders:

1. Work Report of the Board of Directors of the Bank of Gansu Co., Ltd. for 2016
2. Work Report of the Board of Supervisors of the Bank of Gansu Co., Ltd. for 2016
3. Report on Work of Finance of Bank of Gansu Co., Ltd. for 2016
4. Profit Distribution Plan of Bank of Gansu Co., Ltd. for 2016
5. Authorization to the Board of Directors by Shareholders' Meeting of the Bank of Gansu Co., Ltd.
6. Resolution on Issuing H Shares and Listing on The Stock Exchange of Hong Kong Limited of the Bank of Gansu Co., Ltd., specifically including:
  - 1) the type and nominal value of the issued shares
  - 2) the date of listing
  - 3) listing place
  - 4) method of issuance
  - 5) scale of issuance
  - 6) pricing method
  - 7) target of issuance
  - 8) principle of offering
  - 9) use of proceeds
  - 10) transfer and reduction of state-owned shares

## Chapter 9 Corporate Governance Report

- 11) conversion to foreign share joint stock company
- 12) period of validity of the resolution
7. resolution on Bank of Gansu Co., Ltd. requesting the Shareholders' Meeting to authorize the Board of Directors and its authorized personnel to handle matter related to the overseas public offering of H shares and listing on the Main Board of The Hong Kong Stock Exchange
8. resolution on accumulated profits distribution plan before overseas public offering of H shares of the Bank of Gansu Co., Ltd.
9. resolution on amendment to the Articles of Association of the Bank of Gansu Co., Ltd.
10. resolution on amendment to the Rules of Procedure for General Meeting of the Bank of Gansu Co., Ltd.
11. resolution on amendment to the Rules of Procedure for the Board of Directors of the Bank of Gansu Co., Ltd.
12. resolution on amendment to the Rules of Procedure for the Board of Supervisors of the Bank of Gansu Co., Ltd.
13. resolution on formulation of Articles of Association of the Bank of Gansu Co., Ltd. (Draft)
14. resolution on formulation of the Rules of Procedure for General Meeting of the Bank of Gansu Co., Ltd. (Draft)
15. resolution on formulation of the Rules of Procedure for the Board of Directors of the Bank of Gansu Co., Ltd. (Draft)
16. resolution on formulation of the Rules of Procedure for the Board of Supervisors of the Bank of Gansu Co., Ltd. (Draft)
17. resolution on authorization affairs relating to the purchase of liability insurance of Directors, Supervisors and senior management and liability insurance for prospectus of the Bank of Gansu Co., Ltd.
18. resolution on establishing consumer finance company of the Bank of Gansu Co., Ltd.

## Chapter 9 Corporate Governance Report

### (3) The Second Extraordinary General Meeting for 2017

The second extraordinary general meeting of the Bank for 2017 was convened on August 12, 2017, at which the following resolutions were considered and approved by the Shareholders:

1. the resolution on the adjustment of some Directors of the Bank of Gansu Co., Ltd.
2. the resolution on the adjustment of some Supervisors of the Bank of Gansu Co., Ltd.
3. the resolution on formulation of Connected Transaction/Related Party Transaction Management Rules (Draft) of the Bank of Gansu Co., Ltd.

### (IV) Board of Directors

The Board of Directors is core to the Bank's corporate governance and is accountable to the Shareholders as a whole. The Board of Directors is an independent decision-making body, which is responsible for implementing the resolutions of the Shareholders' general meeting, formulating the Bank's major strategy, policy and development plan, approving the operation plan, investment plan and internal management setup of the Bank, formulating the annual financial budget, final accounts and profit distribution plan and appointing the senior management. The senior management has the rights to make decision in daily operation independently and the Board of Directors will not intervene specific daily affairs of operation and management. The Board of Directors is also responsible for the performance of the corporate governance functions pursuant to the Corporate Governance Code.

#### (1) Composition of the Board of Directors

As of the date of this annual report, the Board of Directors consists of 11 members, including:

- Mr. Li Xin (Chairman, Executive Director)
- Mr. Lei Tie (Executive Director)
- Ms. Wu Changhong (Non-executive Director)
- Ms. Zhang Hongxia (Non-executive Director)
- Mr. Li Hui (Non-executive Director)
- Mr. Guo Jirong (Non-executive Director)
- Mr. Zhang Youda (Non-executive Director)
- Mr. Chen Aiguo (Independent Non-executive Director)
- Ms. Tang Xiuli (Independent Non-executive Director)
- Ms. Luo Mei (Independent Non-executive Director)
- Mr. Wong Sincere (Independent Non-executive Director)



## Chapter 9 Corporate Governance Report

The decision-making, authorization and voting procedures of the Board of Directors strictly follow the relevant rules and regulations of regulatory authorities and the Articles of Association. During the Reporting Period, the Board of Directors discharged its duties diligently, carefully reviewed matters that were significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational changes, facilitated prudent decision making, ensured operational stability and protected the interests of the Bank and its shareholders.

### **(2) Appointment, re-election and removal of Directors**

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

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

The Directors' appointment, re-election and removal procedures of the Bank are set forth in the Articles of Association. The Nomination and Remuneration Committee of the Board of Directors is responsible for discussing and reviewing the qualification and experience of each candidate for Director and recommending the suitable candidates to the Board of Directors. After the approval of nomination resolution related to candidates from the Board of Directors, the selected candidates will be recommended for further approval by the Shareholders at a general meeting. As a banking institution regulated by the CBRC, the qualification of a candidate for the Bank's directorship shall also be approved by the CBRC.

### **(3) Relationships among Directors, Supervisors and Senior Management Members**

The Directors, Supervisors and senior management members of the Bank are not related to one another in respect of financial business, family or other material/relevant relationships.

### **(4) Changes of Directors**

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

## Chapter 9 Corporate Governance Report

### **(5) Operation of the Board of Directors**

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

Provided that sufficient protection is ensured for the expression of opinions by Directors, the Directors may pass resolutions at an extraordinary meeting of the Board of Directors by communication voting and the resolutions shall be signed by the participating Directors. The conditions and procedures of communication voting are provided in the Articles of Association and the Rules of Procedure for Meetings of the Board of Directors. The Board of Directors shall record the decisions on matters considered at the meetings in the minutes of meetings and the participating Directors and the recorder of minutes shall sign on such minutes. Directors attending the meeting are entitled to request an explanation on record to be made in respect of their verbal comments in the meetings.

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

The Board of Directors has established an office as its operating arm, which is responsible for preparation of general meetings, meetings of the Board of Directors and meetings of Board committees, information disclosure and other daily matters.

### **(6) Functions and Powers of the Board of Directors**

According to the Articles of Association, the Board of Directors exercises the following functions and powers:

1. to determine the Bank's business development strategies and determine the Bank's business plans and investment plans;
2. to consider the Bank's annual report and manage the Bank's external information disclosure;
3. to convene general meetings and report work to the general meeting;

## Chapter 9 Corporate Governance Report

4. to implement the resolutions of the general meeting;
5. to prepare the Bank's annual financial budgets plan, final accounts plan, venture capital distribution plan, profit distribution plan and plan for making up the losses;
6. to assess and evaluate the performance of the Directors' duties and report to the general meeting;
7. to formulate plans for increase or reduction of the registered capital, issue of bonds or other securities and listing plan of the Bank;
8. to consider and approve the Bank's plans for external investments, acquisitions and sales of assets, asset collateral, external guarantees, entrusted wealth management and related transactions in accordance with the authorization of the general meeting;
9. to formulate a plan for material acquisitions or repurchases of Shares of the Bank or merger, division, dissolution and alternation of corporate form of the Bank and submit it to the general meeting for approval;
10. to determine the setting, merger and revocation of the internal management department and branch offices of the Bank;
11. to consider and approve material related transactions within the scope of the authorization of the general meeting;
12. to appoint or dismiss the president of the Bank and the secretary of the Board of Directors in accordance with the nomination of the chairman of the Board; to appoint or dismiss other senior management such as the vice president of the Bank and the person in charge of finance in accordance with the nomination of the president of the Bank;
13. to determine the Bank's risk management and internal control policies and to formulate the Bank's main management system;
14. to regularly assess and improve the Bank's corporate governance;
15. to formulate the basic management system of the Bank;
16. to formulate the amendment proposals to the Articles of Association, the rules of procedure for general meetings and the rules of procedure for Board meetings;
17. to be responsible for the Bank's information disclosure and be ultimately responsible for the completeness and accuracy of the Bank's accounting and financial reporting system;

## Chapter 9 Corporate Governance Report

18. to listen to the work report and examine the work of the president;
19. to approve the Bank's annual internal audit plans and audit budgets;
20. to determine the Directors and members of the respective committees of the Board in accordance with the nomination of the Nomination and Remuneration Committee;
21. to consider and approve the proposals put forward by the respective committees of the Board;
22. to determine the Bank's long-term incentive schemes, remuneration plans and salary plans;
23. to request the general meeting to employ, renew or replace the accounting firm which conducts audit for the Bank;
24. to have the right to stop the decision made by the president and other senior management of the Bank that may cause significant business risk or loss to the Bank;
25. to carry out the performance appraisal for the president and other senior management of the Bank and determine their remuneration, rewards and penalties and payment methods and decide on the remuneration and payment methods of the Independent Directors and external Supervisors;
26. to formulate the Bank's policy on the protection of consumer rights and interests, regularly listen to and consider the senior management's report on the protection of consumer rights and interests; and
27. to consider the approve the money laundering risk management report, develop money laundering risk management strategies and monitor the implementation of the strategies and assume the ultimate responsibility for money laundering risk management; other powers conferred by the laws, administrative regulations, department rules and regulations, the Articles of Association and shareholders' general meeting or required by the supervisory authority to the Board of Directors for exercise.

Unless otherwise stipulated in the Articles of Association, items 7, 9 and 16 shall be passed by more than two-thirds of all Directors, and the rest shall be passed by more than half of all Directors when making the resolutions above.

## Chapter 9 Corporate Governance Report

### **(7) Responsibilities of the Directors**

During the Reporting Period, all the Directors are prudent, earnest, and diligent to exercise their rights granted by the Bank and domestic and overseas regulatory authorities. The Directors have spent adequate time and effort to deal with the Bank's affairs, ensuring the compliance of the Bank's operation with laws, regulations and the requirements of national economic policies. The Directors have treated all the Shareholders equally, informed themselves of the status of the Bank's business operation and management in a timely manner, and performed other diligence obligations required by the laws, administrative regulations, departmental rules and the Articles of Association.

The independent non-executive Directors make full use of their respective professional expertise to provide professional and independent advice on the corporate governance, operation and management of the Bank.

The Bank also pays attention to the ongoing training of Directors, to make sure they have proper understanding of the operation and business of the Bank and the duties and responsibilities authorized by the relevant laws and regulatory requirements and the Articles of Association. The Bank has purchased the director liability insurance for all Directors.

### **(8) Responsibilities assumed by the Directors in the preparation of financial statements**

The Directors have acknowledged their responsibilities in the preparation of financial statements of the Bank for the year ended December 31, 2017. The Directors are responsible for reviewing and confirming the financial statements for each accounting period to ensure that the financial statements truly and fairly reflect the financial conditions, operating results and cash flows of the Bank. In preparing the consolidated financial statements of the Bank for the year ended December 31, 2017, the Directors have adopted appropriate accounting policies which have been applied consistently, and prudent and reasonable judgments have been made.

## Chapter 9 Corporate Governance Report

### (9) Meetings of the Board of Directors

During the Reporting Period, the Bank has convened eight meetings (including teleconference) of the Board of Directors. Attendance of Directors at the meetings of the Board of Directors, meetings of Board committees and general meetings of the Bank are set out in the table as follows:

Directors	Number of meetings attended in person/attended by proxy/should be attended					
	Board of Directors	Strategy and Development Committee	Audit committee	Nomination and Remuneration Committee	Related Party Transaction and Risk Management Committee	General Meeting (actual attendance)
Mr. Li Xin	8/0/8	2/0/2	—	2/0/2	—	3
Mr. Lei Tie	8/0/8	2/0/2	—	2/0/2	2/0/2	3
Ms. Wu Changhong	8/0/8	—	2/0/2	—	—	3
Ms. Zhang Hongxia	7/1/8	2/0/2	—	—	—	3
Mr. Li Hui	8/0/8	2/0/2	—	—	—	3
Mr. Guo Jirong	7/1/8	—	2/0/2	—	—	3
Mr. Zhang Youda	7/1/8	—	—	—	2/0/2	3
Mr. Chen Aiguo	8/0/8	2/0/2	2/0/2	2/0/2	—	3
Ms. Tang Xiuli <sup>(1)</sup>	3/0/3	—	0/0/0	—	0/0/0	—
Ms. Luo Mei <sup>(2)</sup>	2/1/3	—	0/0/0	0/0/0	0/0/0	—
Mr. Wong Sincere <sup>(3)</sup>	3/0/3	—	—	0/0/0	0/0/0	—
Mr. Liu Qing <sup>(4)</sup>	6/0/6	2/0/2	—	2/0/2	2/0/2	3
Ms. Zhang Ping <sup>(5)</sup>	4/1/5	—	2/0/2	—	—	3
Mr. Tian Ruizhang <sup>(6)</sup>	5/0/5	—	—	—	2/0/2	3

#### Notes:

- (1) In August 2017, Ms. Tang Xiuli was elected as our independent non-executive Director by the general meetings of the Bank. She began to perform her duties as an independent non-executive Director of the Bank officially in November 2017 when her qualification of Director was approved by the CBRC Gansu Office. From the date on which the qualification of Ms. Tang Xiuli as a Director was approved and until December 31, 2017, the Bank did not convene any general meeting and the Audit Committee and Related Party Transaction and Risk Management Committee of the Board of Directors in which she was a member did not convene any meeting, either.
- (2) In August 2017, Ms. Luo Mei was elected as our independent non-executive Director by the general meetings of the Bank. She began to perform her duties as an independent non-executive Director of the Bank officially in November 2017 when her qualification of Director was approved by the CBRC Gansu Office. From the date on which the qualification of Ms. Luo Mei as a Director was approved and until December 31, 2017, the Bank did not convene any general meeting and the Audit Committee, Nomination and Remuneration Committee and Related Party Transaction and Risk Management Committee of the Board of Directors in which she was a member did not convene any meeting, either.

## Chapter 9 Corporate Governance Report

- (3) In August 2017, Mr. Wong Sincere was elected as independent non-executive Director by the shareholders' general meetings of the Bank. As his qualification of Director was approved by the CBRC Gansu Office in November 2017, he began to officially perform his duties as an independent non-executive Director. From the date on which the qualification of Director of Mr. Wong Sincere was approved until December 31, 2017, the Bank did not convene any shareholders' general meeting, and the Nomination and Remuneration Committee and Related Party Transaction and Risk Management Committee in which he is a member did not convene any meeting.
- (4) Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer.
- (5) In July 2017, Ms. Zhang Ping, a former independent Director of the Bank, proposed to resign from her position of independent Director of the Bank due to personal reason. In November 2017, the resignation of Ms. Zhang Ping formally took effect. At the period from January 1, 2017 to the date on which the resignation of Ms. Zhang Ping formally took effect, Ms. Zhang Ping served as the chairman of the audit committee of the Board of Directors.
- (6) In July 2017, since the term of an independent Director should not extend for a period of more than six years as required by the relevant laws and regulations of the PRC, Mr. Tian Ruizhang, a former independent Director of the Bank, proposed to resign from his position of independent Director of the Bank. In November 2017, the resignation of Mr. Tian Ruizhang formally took effect. At the period from January 1, 2017 to the date on which the resignation of Mr. Tian Ruizhang formally took effect, Mr. Tian Ruizhang served as the chairman of related party transaction and risk management committee of the Board of Directors.

### **(10) Independent Non-executive Directors**

The Board of Directors consists of four independent non-executive Directors and the qualification, number and proportion are in accordance with the regulations of the CBRC, the CSRC and the Hong Kong Listing Rules. The four independent non-executive Directors are not involved in any conflict with the independence issue described in Rule 3.13 of the Hong Kong Listing Rules. The Bank has received from each of the independent non-executive Director the independence confirmation for the period from the Listing Date to March 27, 2018, being the date of the meeting of the Board to consider and approve the annual results of the Group for the year ended December 31, 2017. Therefore, the Bank confirms that all the independent non-executive Directors have complied with the Hong Kong Listing Rules in respect of their independence.

The Bank's independent non-executive Directors represent the majority of the Bank's Audit Committee, Nomination and Remuneration Committee, Related Party Transaction and Risk Management Committee and they serve as the chairman of these committees. Ms. Luo Mei, an independent non-executive Director, has appropriate accounting and financial-related management expertise as required by the Hong Kong Listing Rules by virtue of her educational background and working experience.

For the period from the Listing Date to March 27, 2018, being the date of the meeting of the Board to consider and approve the annual results of the Group for the year ended December 31, 2017, the independent non-executive Directors kept in touch with the Bank's management through various means such as attending meetings. They earnestly participated in meetings of the Board of Directors and the Board committees and actively provided their opinions and emphasized on the interests of minority shareholders of the Bank. The independent non-executive Directors have fully discharged their responsibilities.

## Chapter 9 Corporate Governance Report

### **(11) Continuing professional development plan for Directors**

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

The Bank has encouraged all Directors to participate in continuing professional development to develop and refresh their knowledge and skills. During the Reporting Period and up to the date of this annual report, all the Directors of the Company attended the special trainings on Responsibilities and Obligations of Directors of Companies Listed in Hong Kong, Responsibilities and Obligations of Directors of Companies Listed in Hong Kong in respect of the Prospectus and Legal Issues Regarding Publicity Before Publication of the Prospectus delivered by Latham & Watkins, the Hong Kong legal adviser to the Company.

The Bank will provide briefings on the latest developments of the Hong Kong Listing Rules and other applicable regulatory requirements to the Directors from time to time, to ensure that the Directors are aware of the latest regulatory development.

### **(12) Corporate governance functions of the Board of Directors**

The Board of Directors is responsible for the establishment of sound corporate governance practice and procedures for the Bank. During the Reporting Period and up to the date of this annual report, the Board of Directors has:

- (1) developed and reviewed the Bank's policies and practices on corporate governance;
- (2) reviewed and monitored the training and continuing professional development of Directors and senior management;
- (3) reviewed and monitored the Bank's policies and practices on compliance with legal and regulatory requirements;
- (4) developed, reviewed and monitored the code of conduct for Directors; and
- (5) reviewed the Bank's compliance with the Corporate Governance Code and disclosure in the corporate governance report.



## Chapter 9 Corporate Governance Report

### (13) Board Committees

The Board of Directors delegates certain responsibilities to various committees. In accordance with relevant PRC laws, the Articles of Association and the Hong Kong Listing Rules, the Bank has formed four Board committees, namely the Strategy and Development Committee, Audit Committee, Nomination and Remuneration Committee and Related-party Transactions and Risk Management Committee.

#### 1. Strategy and Development Committee

As of the date of this annual report, the Strategy and Development Committee consists of Mr. Li Xin (Executive Director), Mr. Lei Tie (Executive Director), Ms. Zhang Hongxia (Non-executive Director), Mr. Li Hui (Independent Non-executive Director) and Mr. Chen Aiguo (Independent Non-executive Director). Mr. Li Xin is the chairman of the Strategy and Development Committee.

The principal responsibilities of the Strategy and Development Committee include but are not limited to:

- to formulate the business management objectives and long-term development strategy of the Bank; and
- to supervise and review the execution condition of annual business plan and investment plan;

During the Reporting Period, the Strategy and Development Committee held two meetings in total, at which the Resolution on H Shares and IPO of Bank of Gansu and the Resolution on the Formulation of Development Plan (2018-2020) for Bank of Gansu Co., Ltd. were considered and approved.

#### 2. Audit Committee

As of the date of this annual report, the Audit Committee consists of Ms. Wu Changhong (Non-executive Director), Mr. Guo Jirong (Non-executive Director), Ms. Luo Mei (Independent Non-executive Director), Ms. Tang Xiuli (Independent Non-executive Director) and Mr. Chen Aiguo (Independent Non-executive Director). Ms. Luo Mei is the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee include but are not limited to:

- to review the accounting policy, financial condition, financial reports, risk and compliance condition;
- to propose to employ or replace external audit agency;
- to supervise the internal audit system and its implementation of the Bank;
- to coordinate the communication between internal audit and external audit; and
- to guarantee the authenticity, accuracy and completeness of audited financial information of the Bank.

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During the Reporting Period, the Audit Committee held two meetings in total, at which the Resolution on the Annual Report of 2016 of Bank of Gansu Co., Ltd. and the Resolution on the Engagement of Shinewing Certified Public Accountants LLP as the Auditing Institution for the Financial Statements of 2016 and the Financial Statements for the Three Years Ended December 31, 2016 and Six Months Ended June 30, 2017 of Bank of Gansu Co., Ltd. were considered and approved.

### **3. Nomination and Remuneration Committee**

As of the date of this annual report, Nomination and Remuneration Committee consists of Mr. Li Xin (Executive Director), Mr. Lei Tie (Executive Director), Ms. Luo Mei (Independent Non-executive Director), Mr. Chen Aiguo (Independent non-executive Director) and Mr. Wong Sincere (independent non-executive Director). Mr. Chen Aiguo is the chairman of the Nomination and Remuneration Committee.

The principal responsibilities of the Nomination and Remuneration Committee include but are not limited to:

#### Responsibilities regarding nomination:

- submitting proposals to the Board of Directors in relation to the formation of the Board of Directors based on the business condition, asset size and equity structure of the Bank;
- formulating the standards and the procedures for election of Directors, president and other senior executives of the Bank, and submitting the relevant proposals to the Board of Directors;
- conducting initial review of the qualifications and credentials of the Directors, president and other senior executives, and providing review comments;
- assessing the independence of independent non-executive Directors; and
- developing and, where appropriate, reviewing the diversification policy of the members of the Board of Directors and disclosing the relevant policies or their abstracts in the annual reports.

#### Responsibilities regarding remuneration and evaluation:

- making recommendations to the Board of Directors on the remuneration of Directors, Supervisors, president and other senior executives, and supervising the implementation of the proposals;
- making recommendations to the Board of Directors on the remuneration packages of individual executive Directors and senior executives, and the remuneration of non-executive Directors;

## Chapter 9 Corporate Governance Report

- based on the remuneration offered by companies of similar nature, time needed and responsibilities, proposing the employment terms for other positions within the Bank; and
- assessing fulfillment of duties and responsibilities by Directors and senior executives and evaluating their annual performance.

During the Reporting Period, the Nomination and Remuneration Committee held two meetings in total, at which the Resolution on the Adjustment of Certain Directors of the Bank of Gansu Co., Ltd. and the Resolution on the Appointment of Xu Jianping as the Secretary to the Board of Directors of Bank of Gansu Co., Ltd. were considered and approved.

#### **4. Related-party Transactions and Risk Management Committee**

As of the date of this annual report, the Related-party Transactions and Risk Management Committee consists of Mr. Lei Tie (Executive Director), Mr. Zhang Youda (Non-executive Director), Ms. Luo Mei (Independent Non-executive Director), Ms. Tang Xiuli (Independent Non-executive Director) and Mr. Wong Sincere (Independent Non-executive Director). Mr. Wong Sincere is the chairman of the Related-party Transactions and Risk Management Committee.

The principal responsibilities of the Related-party Transactions and Risk Management Committee include but are not limited to:

##### Responsibilities regarding management of related party transactions:

- examining and approving the related party transactions within the scope of authorization set by the Board of Directors, or accepting the filing of such related party transactions; and
- assessing the related party transactions outside the scope of authority set by the Board of Directors, and seeking for the approval of such related party transactions by the Board of Directors.

##### Responsibilities regarding risk management:

- supervising the management of risks by the Bank's senior management;
- evaluating the Bank's risk profile;
- making recommendations regarding our risk management and internal controls, discussing risk management with senior management, and ensuring that management has performed their duties to establish effective systems; and
- actively or as appointed by the Board of Directors, conducting research on key investigation results relating to risk management matters and responses of management to investigation results.

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During the Reporting Period, the Related-party Transactions and Risk Management Committee held two meetings in total, at which the resolutions such as Resolution on formulating Connected Person Transaction/Related Party Transaction Management Rules (Draft) of the Bank were considered and approved.

### **(14) Overview of the annual audit work of the Bank**

Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited (collectively as “Shinewing”) carried out the 2017 audit on the Bank by two stages, the preliminary audit and year-end audit. In the preliminary audit stage, Shinewing conducted the audit on internal control, carried out internal control test at the entity level to the Bank’s level and business process level, and evaluated the effectiveness of the internal control design and whether it has been effectively implemented during the audit. Through the interview, Shinewing understood the Bank’s control environment, the main operation conditions, business innovation, system updates and fraud risk. Shinewing conducted a preliminary audit on major subjects of financial statements, such as financial instruments, operating income, investment income and other subjects. Shinewing also made a testing and evaluation on the main information system used by the Bank and discussed timely the finding of preliminary audit with the Bank’s management. At the end of year-end audit, Shinewing followed up the finding on the preliminary audit stage and conducted detailed audit procedures for all major subjects, and communicated timely the finding of year-end audit with the Bank’s management.

In order to successfully complete the audit work in 2017 and issue relevant reports with scheduled time, the Audit Committee of the Board of Directors authorized the finance department of the Bank to discuss with Shinewing about the planning of audit work, audit progress, scope of consolidation, timing of initial draft and final draft of the audit report, etc. During the audited period, the Audit Committee made multiple rounds of supervision. On March 27, 2018, Shinewing issued the standard unqualified audit reports to the Bank within the scheduled time.

The Audit Committee reviewed the independence, objectivity and audit procedure of Shinewing to ensure that the financial reports issued give a true and fair view. Shinewing has taken the necessary protective measures in accordance with the relevant ethical requirements to prevent possible threats to independence.

### **(V) Board of Supervisors**

The Board of Supervisors, the Bank’s supervisory body, aims to guarantee the legitimate interests of the Bank, Shareholders, employees, depositors and other stakeholders and has the obligation to oversee the Bank’s financial activities, risk management and internal control, discharge of duties by the Board and its members and the senior management, and is accountable to the Shareholders as a whole.

The term of office of the Supervisors shall be three years. Upon expiry of the current term of office, a Supervisor is eligible for re-election and re-appointment. The cumulative term of office for an external Supervisor of the Bank shall be no more than six years. Shareholder Supervisors and external Supervisors shall be elected, removed or replaced by the general meeting. Employee Supervisors shall be elected, removed or replaced by the employee representative meeting of the Bank.

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### (1) Composition of the Board of Supervisors

According to the Articles of Association, the Board of Supervisors shall comprise shareholder Supervisors, employee Supervisors and external Supervisors. The number of the employee Supervisors of the Bank shall not be less than 1/3 of the total number of the Supervisors.

As at the date of this annual report, the members of the Board of Supervisors are as follows:

- Mr. Yang Qian (Chairman of the Board of Supervisors, Employee Representative Supervisor)
- Mr. Xu Yongfeng (Employee Representative Supervisor)
- Mr. Luo Zhenxia (Employee Representative Supervisor)
- Mr. Liu Yongchong (Shareholder Supervisor)
- Mr. Li Yongjun (Shareholder Supervisor)
- Mr. Liu Xiaoyu (Shareholder Supervisor)
- Mr. Zhu Xingjie (External Supervisor)
- Mr. Yang Zhenjun (External Supervisor)
- Mr. Dongying (External Supervisor)

### (2) Chairman of the Board of Supervisors

Mr. Yang Qian is the chairman of the Board of Supervisors. The chairman of the Board of Supervisors shall have the following duties and powers:

- to convene and preside over supervisory board meetings;
- to urge and check the implementation of the resolutions of the Board of Supervisors;
- to review and sign reports of the Board of Supervisors and other important documents;
- to report work to the general meetings on behalf of the Board of Supervisors;
- to organize the Board of Supervisors to fulfill obligations; and
- other duties and powers as provided for in laws, administrative regulations and articles of association.

### (3) Changes of Supervisors

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

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### (4) Responsibilities of the Board of Supervisors

The Board of Supervisors is a supervising organ of the Bank and accountable to the Shareholders as a whole. The Board of Supervisors shall exercise the following powers:

1. to review the Bank's report periodically prepared by the Board and give written audit opinions;
2. to examine and supervise the Bank's financial affairs;
3. to monitor the Directors and senior officers in the performance of their duties, make recommendations on the removal of Directors, president and other senior management who violate the laws, administrative regulations, the Articles of Association or the resolutions of the shareholders' general meeting;
4. to demand rectification from a Director, president and other senior officers when the acts of such persons are detrimental to the interests of the Bank;
5. to review financial information such as the financial reports, operation reports and profit distribution plans proposed to be submitted by the Board to general meetings; if any queries arise, it may authorize the registered accountants and certified public auditors in the name of the Bank for review;
6. to propose to convene an extraordinary general meeting; to convene and preside over the shareholders' general meeting when the Board of Directors fails to perform the duties of convening and presiding over the general meeting as set out in the Articles of Association;
7. to make proposal to the shareholders' general meeting;
8. to assess and evaluate the Supervisors for performance of their duties and report to the shareholders' general meeting;
9. to report to the shareholders' general meeting;
10. to supervise and require for rectification regarding the Bank's business decision-making, risk management and internal control;
11. to supervise the Bank's internal audit;
12. to undertake the resign audit of Directors and senior officers as required;
13. to negotiate with the Directors or file a lawsuit against the Directors and senior officers on behalf of the Bank in accordance with the provisions of the Company Law;

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14. 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;
15. to propose any remuneration (or allowance) arrangement of a Supervisor;
16. to supervise the Directors and senior management personnel in the performance of the anti-money laundering duties according to law and to evaluate the Directors and senior officers in the performance of the risk management of money laundering, and report to the Shareholders' general meeting; and
17. other duties and powers as provided in the laws, administrative regulations, and the Articles of Association or conferred by the general meetings.

The Board of Supervisors fulfills their supervisory responsibilities mainly through the following manners:

- convening regular meetings of the Board of Supervisors;
- attending general meetings and the meetings of the Board of Directors;
- attending the relevant meetings of the senior management;
- reviewing various documents and materials provided by the senior management and listening to the work report prepared by the senior management;
- evaluating annual performance of the Directors and senior management;
- conducting on-site inspections of the Bank's branches, sub-branches and subsidiaries; and
- conducting off-office audits of the Bank's executive Directors and senior management.

Through the above works, the Board of Supervisors monitors and evaluates the Bank's operation and management, risk management, internal controls, and the performance of the Board of Directors and senior management.

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### (5) Meetings of the Board of Supervisors

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

The following table sets forth the attendance of Supervisors at meetings during the Reporting Period:

Supervisors	Attendance in Person	Attendance through Proxy	No. of Required Attendance
Mr. Yang Qian	5	0	5
Mr. Xu Yongfeng	5	0	5
Mr. Luo Zhenxia	5	0	5
Mr. Liu Yongchong	5	0	5
Mr. Li Yongjun	4	1	5
Mr. Liu Xiaoyu	5	0	5
Mr. Zhu Xingjie	5	0	5
Mr. Yang Zhenjun <sup>(1)</sup>	1	0	1
Mr. Dong Ying <sup>(2)</sup>	1	0	1

Notes:

- (1) Mr. Yang Zhenjun was appointed as the external Supervisor of the Bank in August 2017. From the date of his appointment and until December 31, 2017, the Board of Supervisors convened one meeting.
- (2) Mr. Dong Ying was appointed as the external Supervisor of the Bank in August 2017. From the date of his appointment and until December 31, 2017, the Board of Supervisors convened one meeting.

During the Reporting Period, the Board of Supervisors had considered and approved the following resolutions:

- the Resolution on Launching the IPO and Listing of Bank of Gansu Co., Ltd.
- the Resolution on the Annual Report of 2016 of Bank of Gansu Co., Ltd.
- resolution on the Work Report of 2016 of the Board of Directors of Bank of Gansu Co., Ltd.
- resolution on the Work Report of 2016 of the Board of Supervisors of Bank of Gansu Co., Ltd.
- resolution on the Financial Report for 2016 of Bank of Gansu Co., Ltd.



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- resolution on the Profit Distribution Plan of 2016 of Bank of Gansu Co., Ltd.
- resolution on the Plan of Issuing and Listing of the H Shares of Bank of Gansu Co., Ltd. on the Hong Kong Stock Exchange
- resolution on the Accumulated Profits Distribution Plan Before Overseas Public Offering of H Shares of Bank of Gansu Co., Ltd.
- resolution on the Amendment to the Articles of Association of Bank of Gansu Co., Ltd.
- resolution on the Amendment to the Rules of Procedures for the Board of Supervisors of Bank of Gansu Co., Ltd.
- resolution on the Amendments to the Rules of Procedures of the Nomination Committee of the Board of Supervisors of Bank of Gansu Co., Ltd.
- resolution on the Amendments to the Rules of Procedures of the Audit committee of the Board of Supervisors of Bank of Gansu Co., Ltd.
- resolution on the Amendments to the Rules of Procedures of the Supervisory Committee of the Board of Supervisors of Bank of Gansu Co., Ltd.
- resolution on the Formulation of Articles of Association (draft) of Bank of Gansu Co., Ltd.
- resolution on the Formulation of the Rules of Procedures for the Board of Supervisors (draft) of Bank of Gansu Co., Ltd.
- resolution on the Engagement of Shinewing Certified Public Accountants as the Auditing Institution for the Financial Statements of 2016 and the Financial Statements for the Three Years Ended December 31, 2016 and Six Months Ended June 30, 2017 of Bank of Gansu Co., Ltd.
- resolution on the establishment of a consumer finance company by Bank of Gansu Co., Ltd.
- the Resolution on the Adjustment of Some Supervisors of the Bank of Gansu Co., Ltd.
- resolution on the Adjustment of Composition of Special Committees of the Board of Supervisors of Bank of Gansu Co., Ltd.

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### (6) Attendance at the general meetings

During the Reporting Period, the Board of Supervisors designated representatives to attend the annual general meeting of the Bank. The Board of Supervisors presented its report on work and results of performance appraisal of Supervisors, which were approved at the annual general meeting.

### (7) Attendance at the meetings of the Board of Directors and senior management

During the Reporting Period, the Board of Supervisors designated representatives to attend the meetings of the Board of Directors and supervised legal compliance of the meetings, procedures of voting, attendance, speech and voting of the Directors. The Board of Supervisors also designated representatives to attend the relevant meetings of the senior management and supervised implementation of resolutions by the Board of Directors.

### (8) Committees under the Board of Supervisors

The Board of Supervisors has established three committees, including the supervisory committee, the nomination committee and the audit committee. These committees operate in accordance with the rules of procedures formulated by the Board of Supervisors.

#### ***Supervisory Committee***

The supervisory committee consists of five Supervisors, being Mr. Dong Ying, Mr. Yang Qian, Mr. Xu Yongfeng, Mr. Zhu Xingjie and Mr. Liu Yongchong. Mr. Dong Ying is the chairman of the Supervisory Committee. The principal responsibilities of the supervisory committee include:

- supervising the Board of Directors in formulating prudent business philosophies and development strategies;
- formulating and coordinating the implementation of internal inspection and special audit plans with respect to our business decision-making, financial activities, risk management and internal controls;
- formulating and coordinating the implementation of investigation plans for major emergencies and risk events based on the authorization of our Board of Supervisors; and
- communicating with external auditors regarding preparation of the Board's periodic reports and related material adjustments and reporting to the Board of Supervisors.

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The supervisory committee convened a total of four meetings during the Reporting Period, at which the following resolutions were considered and approved:

- the 2017 First Quarterly Financial Report
- the resolution on the Report on Financial Report for 2016 of Bank of Gansu Co., Ltd.
- the resolution on the Profit Distribution Plan of 2016 of Bank of Gansu Co., Ltd.
- the 2017 Interim Financial Report
- the 2017 Third Quarterly Financial Report

### **Nomination Committee**

The nomination committee consists of five Supervisors, being Mr. Yang Zhenjun, Mr. Yang Qian, Mr. Xu Yongfeng, Mr. Li Yongjun and Mr. Dong Ying. Mr. Yang Zhenjun is the chairman of the Nomination Committee. The principal responsibilities of the nomination committee include:

- formulating procedures and standards concerning election and appointment of Supervisors, conducting preliminary review on the qualifications of candidates for Supervisors, and submitting proposals to the Board of Supervisors;
- supervising the process of election and appointment of the Directors;
- performing comprehensive evaluation of Directors, Supervisors and senior executives and reporting the results of evaluation to the Board of Supervisors; and
- supervising the objectivity and reasonableness of the remuneration management systems and policies and remuneration plans for senior management.

The Nomination Committee held one meeting during the Reporting Period, at which the Resolution on the Adjustment of the Members of the Board of Supervisors was considered and approved.

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### **Audit Committee**

The audit committee consists of five Supervisors, being Mr. Zhu Xingjie, Mr. Yang Qian, Mr. Luo Zhenxia, Mr. Liu Xiaoyu and Mr. Yang Zhenjun. Mr. Zhu Xingjie is the chairman of the Audit Committee. The principal responsibilities of the audit committee include:

- supervising and inspecting the Bank's financial position;
- reviewing the Bank's annual, semi-annual and quarterly financial and operation reports; and
- analyzing and evaluating the Bank's budget implementation, asset operation and quality, internal controls and the implementation of major investment decisions.

The audit committee held a total of two meetings during the Reporting Period, at which the Resolution on the Annual Report of 2016 of Bank of Gansu Co., Ltd. and the Review Report on Operation of 2016 were considered and approved.

### **(9) Work performed by External Supervisors**

The Chairmen of the supervisory committee, the nomination committee and the audit committee of the Board of Supervisors are served by external Supervisors, which strengthens the role of external Supervisors in performing assessment, internal control and other aspects of independent oversight functions, and plays a positive role in improving the Bank's management quality and governance structure.

During the Reporting Period, external Supervisors actively participated in meetings, carefully studied and actively participated in discussions and decision-making of each issue, considered each issue from the perspective of sustainable development of the Bank and protection of its Shareholders' interests, carefully provided their independent opinions, and fulfilled the responsibilities of external Supervisors in compliance with applicable laws and regulations.

### **(VI) Senior Management**

Under the leadership of the Board of Directors, the President and other senior management of the Bank shall operate and manage the Bank in accordance with the relevant laws and regulations, the Articles of Association and the authorization of Board of Directors. In accordance with the Articles of Association, the President of the Bank shall be nominated, appointed or dismissed by the Board of Directors. Moreover, the Bank has one President<sup>(1)</sup> and several Vice Presidents. The Vice President and other senior management are nominated by the President, appointed or dismissed by the Board of Directors. The qualifications of the President and other senior management shall be reviewed and approved by the regulatory authority of banking in China.

1 Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer. At a meeting of the Board of Directors held on November 9, 2017, the Board of Directors designated Mr. Lei Tie to assume the roles and responsibilities of the president of the Bank in the interim prior to the formal appointment of the new president of the Bank. The Bank is in the process of selecting the new president. According to applicable PRC laws and the Articles of Association, the president should be nominated by the chairman of the Board of Directors and approved by the Board of Directors. Additionally, his/her qualification as the president of the Bank should be approved by the competent PRC banking regulatory authorities.

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As at the date of this annual report, the senior management of the Bank includes:

- Mr. Lei Tie (Vice President)
- Mr. Qiu Jinhua (Vice President)
- Mr. Wang Chunyun (Chief Risk Officer)
- Mr. Wang Zhiyuan (Vice President, General Manager of the Human Resources Department, General Manager of the Strategy and Development Department (concurrent))
- Mr. Xu Jianping (Vice President, Secretary to the Board, Director of the Office of the Board of Directors; Joint Company Secretary)

The President of the Bank shall be responsible to the Board of Directors. The President shall operate and manage the Bank in accordance with the laws, regulations, the Articles of Association and the authorization of the Board of Directors. The Vice President shall assist with the President and perform the responsibilities as per the relevant authorizations.

The President of the Bank has the following powers and duties:

1. to manage the business operations of the Bank and report work to the Board;
2. to implement resolutions of the Board;
3. to prepare plans for the establishment of internal management structure of the Bank;
4. to establish the basic management system of the Bank and to formulate the Bank's specific rules and regulations;
5. to appoint or remove the head of the functional departments and the branches other than those required to be appointed or removed by the Board;
6. to propose to the Board for the appointment or removal of the deputy president and other senior officers of the Bank;
7. to authorize deputy president and other senior officers, the person in charge of the internal functional departments and branches to be engaged in business management activities;
8. to submit to the Board the annual business plan and investment plan of the Bank, the annual financial budget, the final accounting plan and the profit distribution plan of the Bank on behalf of the senior management, and organize the implementation after approval;
9. to determine the salary, welfare, reward, punishment and other incentive and restraint programs and implement them after the approval of the Board of Directors;

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10. to decide on the appointment and dismissal of employees of the Bank other than senior officers;
11. to take urgent measures in the event of a major incident in the Bank and to report immediately to the Board of Directors, the Board of Supervisors and the banking regulatory authorities and the local branches of the PBoC;
12. in exceptional circumstances, to propose an extraordinary meeting of the Board of Directors; and
13. other powers which are to be exercised by the president in accordance with the laws, regulations and the provisions of the Articles of Association or the power to be exercised by the president as authorized by the Board.

The President and Vice Presidents who are not Directors shall have no voting rights at the meetings of the Board of Directors.

Remuneration paid to the senior management (excluding the members of senior management who are also the Directors) by bands for the year ended December 31, 2017 is set out as follows:

Remuneration bands	Number of Persons
Below RMB1.0 million	2
RMB1.0 million–RMB1.5 million	2

### (VII) Chairman of The Board and the President

The roles and duties of the Chairman of the Board of Directors and the president of the Bank are assumed by different persons, with their respective responsibilities clearly delineated and in compliance with the requirements under the Hong Kong Listing Rules.

Mr. Li Xin, an executive Director, is the Chairman of the Board of Directors and is responsible for the overall strategic planning and leadership of the Board of Directors to ensure the effective operation of the Board of Directors and that all Directors are aware of the current issues and that each issue could be discussed in a timely and constructively manner. To assist the Board of Directors to discuss all important or other related matters, the Chairman of the Board of Directors works with the Bank's senior management to ensure that all Directors receive timely, appropriate, complete and reliable information for their consideration and review.

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Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer. At a meeting of the Board of Directors held on November 9, 2017, the Board of Directors designated Mr. Lei Tie to assume the roles and responsibilities of the president of the Bank in the interim prior to the formal appointment of the new president of the Bank. The president of the Bank is responsible for business operations, implementing the Bank's strategies and carrying out the business plans. The president of the Bank, being nominated by the Chairman of the Board of Directors and appointed by the Board of Directors, reports to the Board of Directors and performs his duties and responsibilities in accordance with the Articles of Association and within the authorization by the Board of Directors.

### **(VIII) Securities Transactions by Directors, Supervisors and Senior Management**

The Bank has adopted, in respect of securities transactions by Directors, Supervisors and senior management members, a code of conduct on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules. During the Reporting Period, the Shares of the Bank had not been listed in the Hong Kong Stock Exchange. Therefore, the Model Code was not applicable to the Directors, Supervisors, and senior management of the Bank during the Reporting Period.

Having made specific enquiries to all Directors, Supervisors and members of the senior management of the Bank, the Bank confirmed that they had complied with the Model Code for the period from the Listing Date (January 18, 2018) to March 27, 2018, being the date of the meeting of the Board to consider and approve the annual results of the Group for the year ended December 31, 2017.

### **(IX) External Auditors and Remuneration of Auditors**

The Group engaged Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited as its domestic and international auditors for 2017, respectively. The fees as agreed to be paid by the Group for the audit of the financial statements for the year ended December 31, 2017 are RMB3.0 million. During the Reporting Period, the Bank also agreed to pay an aggregate fee of RMB5.4 million to Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited for preparing the auditors' report in respect of the Bank's H Shares listing.

The Audit Committee of the Board of Directors was of the view that Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited can complete various engagements of the Bank satisfactorily, stick to the principles of independence, objectiveness and impartiality and comply with the applicable accounting principles and ethical requirements for accountants, and are diligent and responsive when conducting auditing work. During the Reporting Period, there was no occasion where the Board of Directors did not agree with the opinions of the Audit Committee on the selection and appointment of external auditors.

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### (X) Joint Company Secretaries

The current joint company secretaries of the Bank are Mr. Xu Jianping and Ms. Ko Nga Kit. Regarding the information about resignation of Ms. Hui Yin Shan, a former joint company secretary of the Bank, please refer to “Report of the Board of Directors – XLIV. Joint Company Secretaries” of this annual report.

The main contact person between Ms. Ko Nga Kit and the Bank is Mr. Xu Jianping, who is aware of the requirements of Rule 3.29 of the Hong Kong Listing Rules. Considering that the H Shares of the Bank were listed on the Hong Kong Stock Exchange on January 18, 2018, Mr. Xu Jianping will comply with the requirements of Rule 3.29 of the Hong Kong Listing Rules for the year ending December 31, 2018. Ms. Ko took part in relevant professional trainings for no less than 15 hours during the Reporting Period.

### (XI) Communication with Shareholders

The Bank places great importance on its Shareholders’ opinions and suggestions and has enhanced understanding and interaction with the Shareholders through a wide range of channels such as the general meeting, reception for visitors, on-site visits and telephone consultations.

#### General enquiries

For enquiries made to the Board of Directors by the Shareholders and potential investors, please contact:

Bank of Gansu Tower, No. 525 Donggang West Road, Chengguan District, Lanzhou, Gansu province, the PRC

Office of the Board of Directors, Bank of Gansu Co., Ltd.

Telephone: +86 (931) 877 0491

Facsimile: +86 (931) 877 1877



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Principal place of business in Hong Kong of the Bank: 18/F, Tesbury Centre, 28, Queen's Road East, Wanchai, Hong Kong

Investors may view this annual report on the website of the Bank ([www.gsbankchina.com](http://www.gsbankchina.com)) and the designated website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

### **Enquiries on matters relating to the H Shares**

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

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong  
Telephone: (852) 2862 8555  
Facsimile: (852) 2865 0990

### **Enquiries on matters relating to the Domestic Shares**

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

Bank of Gansu Tower, No. 525 Donggang West Road, Chengguan District, Lanzhou, Gansu Province, the PRC  
Office of the Board of Directors, Bank of Gansu Co., Ltd.  
Telephone: +86 (931) 877 0491  
Facsimile: +86 (931) 877 1877

### **(XII) Information Disclosure**

The Board of Directors and senior management of the Bank place great importance on information disclosure. They rely on good corporate governance and internal controls to provide timely, accurate and fair information for the investors. During the Reporting Period and up to the date of this annual report, no insider dealing was identified.

In accordance with the requirement of Measures for the Information Disclosure of Commercial Banks and Notice on the Normative Content of the Annual Report of the Joint-stock Commercial Banks, the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed.

The Bank has also formulated the Information Disclosure Regulations of Bank of Gansu Co., Ltd. ("Information Disclosure Regulations"), which provide for basic principles of information disclosure, including the disclosure principles in the Bank's prospectus, offering circulars, listing documents, periodic reports and interim reports. The Board of Directors is primarily responsible for the information disclosure of the Bank and the Chairman of the Board of Directors is the primary person in charge of the information disclosure of the Bank.

## Chapter 9 Corporate Governance Report

### (XIII) Procedures and Regulatory Measures related to Inside Information

The Bank places great importance on insider information management. In order to strengthen relevant confidentiality and protect the legitimate interest of investors by maintaining fairness with regard to information disclosure, the Bank has formulated the Information Disclosure Regulations pursuant to applicable laws, regulations, the Hong Kong Listing Rules and other regulatory requirements. The Information Disclosure Regulations provide for the scope of inside information and the definition of insiders possessing inside information, detailed requirements on management of insiders and inside information, confidentiality of such information and sanction measures for divulgence of inside information.

### (XIV) Amendment to the Articles of Association during the Reporting Period

During the Reporting Period, the Bank amended certain articles of the Articles of Association to comply with the applicable laws, regulations, administrative measures and the Hong Kong Listing Rules with respect to the listing of its H Shares on the Hong Kong Stock Exchange. The amended Articles of Association became effective from the Listing Date. Investors may review the amended Articles of Association on the website of the Bank ([www.gsbankchina.com](http://www.gsbankchina.com)) and the designated website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

### (XV) Rights of Shareholders

#### (1) Convening of extraordinary general meeting at the request of Shareholders

The Shareholders (the “Proposal Shareholders”) of the Bank who individually or jointly hold 10% or more (calculated based on the shareholding from the date when such written request is made by such Shareholders) of the total voting Shares of the Bank may request in writing to convene an extraordinary general meeting. The following procedures shall be followed if the Proposal Shareholders request an extraordinary general meeting or class meeting:

- (I) Two or more than two Shareholders jointly holding the shares carrying more than 10% (inclusive) and the voting rights in the meeting to be held can execute one or several copies of written requirements in the same format for requiring the Board of Directors to convene the extraordinary general meeting or class meeting and clarify the meeting subject. The Board shall respond in writing to decide to convene such meeting or not within ten days upon receipt of such written proposal in accordance with the laws, rules and regulations and the Articles of Association. The number of shares aforesaid shall be calculated from the date when such written request is made by the Shareholders.

Where the Board agrees to convene an extraordinary general meeting, a notice of the general meeting shall be given within five days after the Board makes such resolution, in which the consent of the Proposal Shareholder requesting to convene the extraordinary general meeting shall be obtained in respect of any changes to the original proposals.

## Chapter 9 Corporate Governance Report

- (II) Where the Board does not agree to convene an extraordinary general meeting or does not respond within ten days upon receipt of the request, the Shareholders who individually or jointly hold more than 10% of the Shares of the Bank shall have the right to propose to the Board of Supervisors to convene an extraordinary general meeting and make such proposal in writing to the Board of Supervisors.

Where the Board of Supervisors agrees to convene an extraordinary general meeting, a notice of the general meeting shall be given within five days upon receipt of such request, in which the consent of the Proposal Shareholder requesting to convene the extraordinary general meeting shall be obtained in respect of any changes to the original proposal.

Where the Board of Supervisors fails to give a notice of the general meeting in specified period, the Board of Supervisors shall be deemed not to agree to convene and preside over the general meeting. The Shareholders individually or jointly holding more than 10% of the Shares of the Bank for over consecutive 90 days (the "Convening Shareholder") may convene and preside over a general meeting.

Where the Board fails to respond to the request of the Shareholder to hold a general meeting, any reasonable expenses incurred by the Shareholder to convene and preside over such meeting shall be borne by the Bank and deducted from any sums owed by the Bank to the Directors who have defaulted on their duties.

If the Board of Supervisors or Shareholders decide to convene the general meeting, the Board of Directors shall be notified in writing; meanwhile, the banking regulatory authority of the place where the Bank is located shall be reported and filed. The content of the notice of convening the extraordinary general meeting shall comply with the following requirements:

- (I) The proposal shall not be added with the new content; or otherwise the Proposal Shareholders shall make a new request to the Board of Directors to convene a general meeting in accordance with the aforesaid procedures;
- (II) The meeting shall be held at the venue where the Bank is located.

For the general meeting convened and presided over by Shareholders on their own initiatives, the shareholding proportion of the Convening Shareholders before the announcement of the resolutions passed at the general meeting shall not be less than 10%. The Board of Supervisors or convening shareholders shall submit the relevant evidentiary materials to the local banking regulatory authorities in the jurisdiction in which the Bank is situated upon the issuance of the notice of a general meeting or the announcement of the resolution of a general meeting.

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### **(2) Proposing resolutions at Shareholders' general meetings**

Shareholders who individually or jointly hold more than 3% of the total voting Shares of the Bank may submit provisional proposals to the conveners in writing 10 days before the date of the general meeting. The conveners shall issue a supplemental notice of general meeting setting out the contents of the provisional proposals within two days upon receiving the proposals.

Shareholders who individually or jointly hold more than 3% of the total voting Shares of the Bank may nominate candidates for Directors and Supervisors to the Board of Directors and Board of Supervisors.

Shareholders who individually or jointly hold more than 1% of the total voting Shares of the Bank may nominate candidates for independent Directors. One shareholder can only nominate one candidate for independent Director and a Shareholder who has nominated a candidate for Director shall not nominate any candidate for independent Director. The qualifications of the nominated candidates for independent Director shall be reviewed by the nomination and remuneration committee under the Board of Directors, wherein the key points of review shall include the independence, expertise, experience, capabilities. The nominators for independent Director shall obtain the consent of the nominee before nomination and the nominating shareholder shall be fully aware of the occupation, academic experiences, professional qualifications, detailed work experiences, all spare-time jobs and other information of the nominee and shall express opinions on the qualification and independence of the nominee as independent Director. In case the Board of Directors has the different views on the particulars of the nominee, written opinions of Board of Directors shall be issued.

### **(3) Making inquiries to the Board of Directors**

Shareholders of the Bank are entitled to supervise the business activities of the Bank, and make recommendations or inquiries to the Board of Directors.

### **(4) Inspection rights of the Shareholders**

Shareholders are entitled to access to the following information in accordance with the applicable laws, regulations, departmental rules, normative documents, regulations promulgated by the securities regulatory authorities of the place where the Bank's Shares are listed and the Articles of Association, including:

1. to obtain a copy of the Articles of Association after its cost has been paid;
2. to have access to and copy the following documents after a reasonable fee has been paid:
  - (1) the Shareholder register;
  - (2) the personal information of Directors, Supervisors, president and other senior management of the Bank;
  - (3) status of the share capital of the Bank;

## Chapter 9 Corporate Governance Report

- (4) reports on the aggregate par value, number of Shares, and highest and lowest prices of each class of Shares in relation to any repurchase by the Bank of its own Shares since the last accounting year, as well as all the expenses paid by the Bank in relation to such repurchases;
- (5) minutes of the general meetings;
- (6) special resolutions of the Bank;
- (7) the latest audited financial statements and the Board reports, auditor's reports and the Board of Supervisors' Reports of the Bank;
- (8) the copy of the latest annual return submitted to the SAIC or other competent authorities for filing.

In accordance with the requirements of Hong Kong Listing Rules, the Bank shall make the documents above (save for item (2) above) available for free inspection by the public and shareholders of H Shares at the address of the Bank in Hong Kong, of which the documents referred to in item (5) shall be available for inspection by Shareholders only.

If any Shareholder makes a request to obtain a copy of the relevant documents from the Bank, the Bank shall send a copy of the requested documents within seven days upon the receipt of a reasonable fee.

The Bank may refuse to provide any documents if such documents or the copies thereof requested involve any business secrets and/or include sensitive information about share price of the Bank.

# Chapter 10 Risk Management, Internal Control and Internal Audit

## I. Overview

The Bank emphasizes prudent business management and believes that effective risk management and internal control are critical to its sustainable business growth:

- The Bank has established a comprehensive risk management, internal control reporting, announcement and appraisal system. In particular, the Bank has set up a vertical risk management structure by establishing risk management departments and positions at its head office and at each branch and sub-branch.
- The Bank has developed different risk management strategies based on the nature and characteristics of major risk categories. It also provides regular risk management training to its employees by conducting bank-wide on-site training and inviting law firms and professional institutions to provide training.

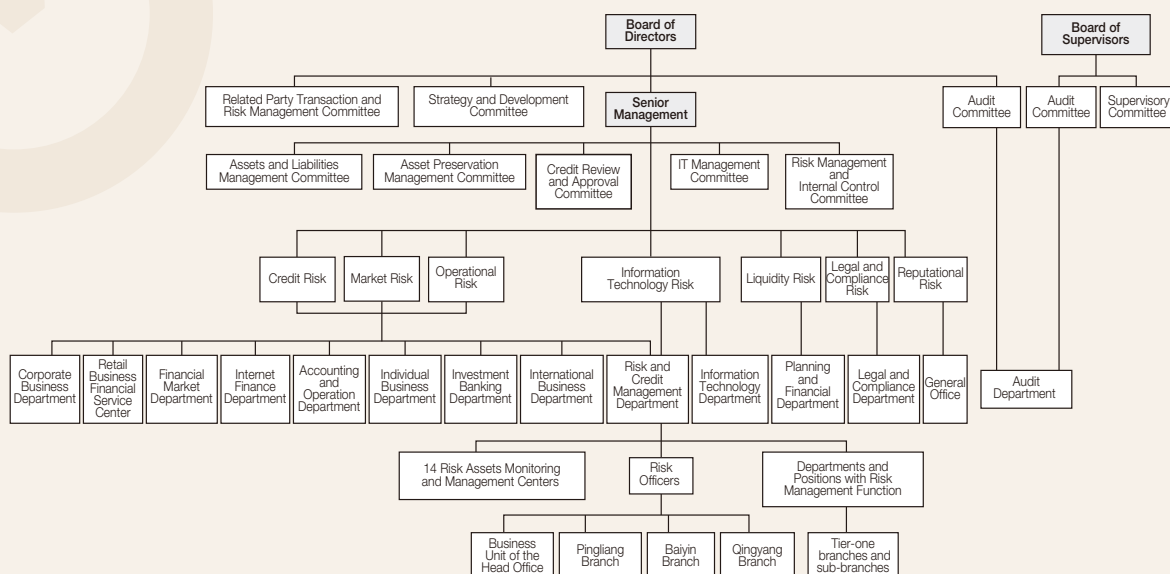
The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Bank has implemented prudent risk management and internal control to ensure good asset quality. As of December 31, 2015 and 2016 and 2017, the Bank's non-performing loan ratio was 1.77%, 1.81% and 1.74%, respectively; and the Bank's provision coverage ratio was 150.94%, 192.72% and 222.00%, respectively.

## II. Risk Management and Internal Control of the Bank

### (I) Organizational System

As of the date of this annual report, the organizational structure of the Bank's risk management is as follows:



## Chapter 10 Risk Management, Internal Control and Internal Audit

### 1. Board of Directors and Special Committees of the Board of Directors

The Board of Directors is ultimately responsible for the Bank's risk management and internal control. The Board is primarily responsible for (i) cultivating the Bank's risk management culture, philosophy, values and code of conduct; (ii) formulating risk management strategies; (iii) determining the Bank's overall risk appetite and risk limits; (iv) reviewing and approving risk management policies and procedures; (v) supervising the performance of risk management responsibilities by the Bank's senior management; (vi) reviewing risk management reports; (vii) reviewing and approving disclosures regarding the Bank's exposure to major risks and overall risk exposure; and (viii) appointing the Bank's chief risk officer. The Bank has established a related party transaction and risk management committee, strategy and development committee and audit committee under its Board of Directors.

#### ***Related Party Transaction and Risk Management Committee***

The Bank's related party transaction and risk management committee is primarily responsible for (i) supervising the control of risks by the Bank's senior management; (ii) evaluating the Bank's risk profile; (iii) making recommendations regarding the Bank's risk management and internal controls, discussing risk management with senior management, and ensuring that management has performed their duties of establishing effective systems; (v) conducting research on key investigation results relating to risk management matters and management responses to investigation results; (iv) reviewing and approving related party transaction filings within the committee's authorized scope as determined by the Board; and (vi) reviewing related party transactions and submitting transactions to the Board for approval.

#### ***Audit Committee***

The Bank's audit committee is primarily responsible for: (i) reviewing the Bank's accounting policies, financial position, financial reports and risk and compliance conditions; (ii) proposing the engagement or replacement of external auditing firms; (iii) supervising the Bank's internal audit system and the implementation of this system; (iv) coordinating internal and external audits; and (v) ensuring the truthfulness, accuracy and completeness of the Bank's audited financial information.

According to the regulatory requirements, the Board of Directors conducts self-evaluation on the effectiveness of risk management and internal control on an annual basis. During the Reporting Period, the Bank maintained effective risk management and internal control in all material respects, and the Board of Directors was not aware of any significant or material defects in relation to the risk management and internal control. The Board of Directors has conducted a review of the effectiveness of the risk management and internal control systems of the Bank and its subsidiary and considered them effective and adequate.

## Chapter 10 Risk Management, Internal Control and Internal Audit

### 2. Board of Supervisors and its Special Committees

The Board of Supervisors oversees the Bank's overall risk management by supervising and examining the Board's and senior management's performance of their respective risk management responsibilities and reporting their findings to the Shareholders.

There are special committees relating to risk management such as the supervisory committee and audit committee under the Bank's Board of Supervisors, and the Board of Supervisors has established effective mechanisms for communication with such committees.

#### ***Supervisory Committee***

The Bank has established a supervisory committee under the Board of Supervisors, which is primarily responsible for (i) supervising the Board of Directors in formulating prudent business philosophies and development strategies; (ii) formulating and coordinating the implementation of internal inspection and special audit plans with respect to the Bank's business decision-making, financial activities, risk management and internal controls; (iii) formulating and coordinating plans for major emergencies and risk events based on the authorization by the Board of Supervisors; and (iv) communicating with external auditors regarding the preparation of the Board's periodic reports and related material adjustments and reporting to the Board of Supervisors.

#### ***Audit Committee***

The Bank's audit committee under the Board of Supervisors is primarily responsible for (i) supervising and inspecting the Bank's financial position; (ii) reviewing the Bank's annual, semi-annual and quarterly financial and operating reports; and (iii) analyzing and evaluating the Bank's budget implementation, asset operation and quality, internal controls and the implementation of major investment decisions.

### 3. Senior Management and its Special Committees

The Bank's senior management implements the risk management policies, strategies and plans set by the Board of Directors. It is primarily responsible for (i) establishing a management structure based on comprehensive risk management strategies, delineating risk management responsibilities among various departments, and developing a coordinated checks-and-balances mechanism among departments; (ii) formulating clear execution and accountability systems for the effective communication and implementation of risk management strategies, preferences and limits; (iii) formulating and implementing overall risk limits based on the Bank's overall risk appetites determined by the Board, based on the relevant industry, region, customer and product; (iv) formulating and adjusting risk management policies and procedures and conducting periodic evaluations; (v) evaluating the Bank's overall risk profile and exposure to specific risks and reporting to the Board; (vi) establishing information management and data quality control systems; and (vii) monitoring breaches of risk appetite limits or violations of risk management policies and procedures, and taking corresponding measures based on the Board's authorization.



## Chapter 10 Risk Management, Internal Control and Internal Audit

The Bank has established five special committees with risk management responsibilities under its senior management: the risk management and internal control committee, asset preservation and management committee, IT management committee, credit review and approval committee, and assets and liabilities management committee.

### ***Risk Management and Internal Control Committee***

The Bank's risk management and internal control committee is primarily responsible for (i) formulating risk management and internal control plans and policies as well as risk evaluations to ensure the effective operation of the Bank's risk management and internal control systems; (ii) formulating risk identification, quantification, assessment, monitoring, control and mitigation measures; (iii) formulating plans or proposals to evaluate the sufficiency, compliance and effectiveness of risk management and internal control systems; (iv) overseeing business departments in establishing, improving and implementing internal control systems; (v) conducting feasibility studies with respect to risks associated with the Bank's major business activities; (vi) handling material risk events; (vii) reviewing proposals regarding risk classifications and provisioning for impairments; (viii) reviewing accountability for incidents of employee non-compliance; (ix) submitting risk reports to the related party transaction and risk management committee; and (x) ensuring the implementation of risk management policies and resolutions of the related party transaction and risk management committee.

### ***Asset Preservation and Management Committee***

The Bank's asset preservation and management committee is primarily responsible for (i) reviewing asset preservation plans and strategies; (ii) reviewing and approving proposals relating to the collection and disposition of collateral; (iii) reviewing and approving dispositions of non-credit assets; (iv) reviewing and approving proposals for the restructuring of non-performing loans; (v) reviewing and approving proposals of branches and sub-branches for the write-offs of credit and bad debts; (vi) reviewing and approving proposals for asset restructurings, mergers and acquisitions and bankruptcies; and (vii) advising on the protection of creditors' rights and preservation of loan assets, and overseeing the implementation of such advice.

### ***IT Management Committee***

The Bank's IT management committee is primarily responsible for (i) formulating the Bank's IT strategic objectives and planning; (ii) supervising the Bank's IT-related work and regularly reporting IT strategic plans, IT budget and IT expenditures to the Board and senior management; (iii) reviewing the Bank's annual IT budget, adjusting IT project priorities and coordinating relevant resources; (iv) considering the Bank's IT policies, systems, standards and principles and urging relevant departments to establish an internal IT management system; (v) implementing the Bank's information safety management decisions and addressing significant information safety incidents; and (vi) supervising the implementation by IT departments of the IT budget and expenditures, IT strategies, standards and flows, IT internal controls, the operation, maintenance and upgrading of IT systems and infrastructure, information safety management, disaster recovery planning as well as IT outsourcing.

## Chapter 10 Risk Management, Internal Control and Internal Audit

### ***Credit Review and Approval Committee***

The Bank's credit review and approval committee is primarily responsible for (i) independently performing review and approval duties on matters relating to the Bank's credit business on the basis of the reporting entity's due diligence report and credit business review analysis opinion; and (ii) assessing and reviewing the feasibilities and risks regarding the technology, market and finance relating to the Bank's credit business, paying attention to various factors that may affect credit safety, effectively identifying various risks, and generating review and approval opinions after a comprehensive appraisal of revenue and risks.

### ***Assets and Liabilities Management Committee***

The Bank's assets and liabilities management committee is primarily responsible for determining the Bank's asset and liability management policies, to help ensure that the Bank maintains reasonable capital adequacy ratios and liquidity and realizes its desired operating results under the changing economic environment and financial markets.

### **4. Risk Management Department**

The Bank has established a centralized and vertical risk management structure. A number of the Bank's business departments at the head office, such as Risk and Credit Management Department, Corporate Banking Department, Financial Service Center of the Retail Banking Department and Personal Banking Department, are involved in the Bank's daily risk management. These departments are mainly responsible for (i) formulating the Bank's overall risk management policies, covering credit authorizations and policies, credit reviews and approvals, management of non-performing assets and review and approval of loan disbursements; (ii) reviewing and approving the credit business by branches and sub-branches; and (iii) guiding branches and sub-branches in formulating credit policies based on their scale of business, target customers and local economic conditions.

Each of the Bank's branches and sub-branches has established its own risk management department and positions. The Bank has also appointed risk officers for its larger branches, such as the business department of its head office, Pingliang branch, Baiyin branch and Qingyang branch. The risk management departments and positions at the Bank's branches and sub-branches are mainly responsible for (i) implementing the risk management policies of the Bank's head office; (ii) monitoring and staying alert of and supervising the risks associated with the Bank's business activities; and (iii) reporting major risk events to the management of the branch or sub-branch and the risk management department of the Bank's head office.

## Chapter 10 Risk Management, Internal Control and Internal Audit

### (II) Management of Different Types of Risks

#### 1. Credit Risk Management

##### **Overview**

Credit risk is the risk of loss due to (i) failure by a debtor or counterparty to meet its contractual obligations or (ii) a decrease in credit ratings or repayment ability. The Bank's credit risks arise mainly from loans, investments, guarantees, commitments and other on- or off-balance-sheet credit risks exposures.

The Bank determines the direction and amount of credit extended each year based on national and regional economic development plans, market conditions and macroeconomic control measures. The Bank also considers its asset and liability structure and trends in deposit and loan growth. The Bank formulates annual credit policy guidelines to provide detailed guidance for extending credit to different industries, customer types and geographic regions.

In accordance with these guidelines, extension of credit in areas more susceptible to changes in macroeconomic conditions and regulatory policies (such as local government financing platforms, as well as borrowers in the real estate sector or industries involving high-pollution, high-power consumption and over-capacity) must comply with all regulatory requirements. The Bank also encourages the extension of credit to emerging sectors, such as modern services, new urbanization construction and internet commerce, in accordance with national policy directives. In addition, the Bank may issue notices of adjustments to credit policy guidelines in response to changes in government policies, the economic environment and its risk preferences.

The Bank categorizes the industries in which a loan applicant operates into different categories and adopts a different credit policy for each industry category. The Bank has also adopted detailed credit policies for small and micro enterprise loans and retail loans based on the type of product, customer group and investment field. The Bank generally updates these policies on an annual basis.

##### **Credit Risk Management of Corporate Loans**

The Bank manages credit risks related to its corporate loans through five procedures, including pre-loan investigation, credit review and approval, loan disbursement management, post-disbursement management, and non-performing loan management.

##### **Credit Risk Management for Retail Loans**

The Bank's credit risk management procedures for retail loans include pre-loan investigation, credit review and approval, loan disbursement management and post-disbursement management.

## Chapter 10 Risk Management, Internal Control and Internal Audit

### ***Credit Risk Management for Financial Market Operations***

The Bank's financial market operations include money market transactions, investment business and wealth management business. The Bank has established various mechanisms to manage credit risks arising from its financial market operations.

### ***Credit Risk Management for Money Market Transactions***

The risk and credit management department at the Bank's head office leads the review and approval of credit limits granted to inter-bank customers and adjusts credit limits based on a customer's operating conditions. To timely respond to risk event alerts, the Bank closely monitors changes in the operations of the actual bearers of credit risks and any external factors that could affect their ability to honor contractual obligations.

### ***Credit Risk Management for Standard Investments and Non-Standard Credit Assets Investments***

The Bank primarily invests in (i) standard investments such as debt securities issued by the PRC government, PRC policy banks, PRC commercial banks and other financial institutions and corporate issuers, and public funds managed by fund companies, and (ii) non-standard credit assets, such as trust plans, asset management plans, wealth management products.

In terms of debt securities investments, (i) the Bank has formulated strict counterparty selection criteria for its bond investments; and (ii) it only invests in standard debt financing instruments with corporate or facility credit ratings of AA or above, with a focus on bonds issued by state-owned or state-controlled enterprises. The Bank has also established similar risk management procedures for investment funds as those for loans.

The Bank manages credit risks related to its non-standard credit assets investments primarily through procedures including counterparty screening, due diligence, review and approval, classifications and record keeping. In particular, the Bank has established similar risk management procedures for asset management plans and trust plans as those for loans. The Bank also implements strict standards for investment in non-principal-protected wealth management products.

### ***Credit Risk Management for the Wealth Management Business***

The Bank manages risks associated with the issuance of wealth management products primarily through measures such as establishing a wealth management team under the investment banking department at the Bank's head office, conducting evaluations of counterparty's eligibility, pre-investment due diligence investigations, risk assessments and post-investment risk management for wealth management products, performing market forecasts and analyses to select appropriate investment targets for wealth management products, and timely disclosing the relevant information to investors, etc.

## Chapter 10 Risk Management, Internal Control and Internal Audit

### ***Credit Risk Management for the Bank's Bill Discounting Business***

The Bank has published management measures and procedures for its bill discounting business. The Bank provides discounting of bank acceptance bills and commercial acceptance bills. It manages risks arising from the discounting of bank acceptance bills primarily by verifying the authenticity of the bills and the items recorded on the bills. The measures and procedures adopted by the Bank for commercial bill discounting mainly include approval by corporate credit approval authorizations, verification of the accuracy of the underlying transactions and risk classification by the risk and credit department based on repayment status.

### ***Credit Risk Management for the Bank's Off-Balance-Sheet Business***

The Bank strictly reviews the business backgrounds of off-balance-sheet transactions and verifies the authenticity of the related documentation. The Bank also requires strict compliance with its internal procedures to ensure that the deposit amounts, margin ratios and guarantee measures meet its requirements.

### ***Credit Risk Management for Related Party Transactions***

In order to control risks arising from related party transactions and ensure compliance with relevant laws and regulations, the Bank has specified in its Articles and internal policies the standards for identifying related parties, the review and approval procedures for related party transactions and the reporting and registration requirements for such transactions.

The Bank rigorously enforces these internal procedures throughout the Bank to identify business relationships between related parties and the Bank and maintain centralized monitoring and management of related party transactions.

### ***Credit Risk Management IT System***

The Bank seeks to improve its credit risk management with advanced IT systems. It has improved and upgraded the credit management system to analyze customer data. The system consists of a credit evaluation module, a risk management module, a post-disbursement management module, a credit reporting module and an asset preservation module in accordance with the Bank's internal policies related to the extension of credit and provision of loans.

The Bank's risk and credit management department collects and reports feedback from the Bank's credit business departments to the Bank's senior management and IT department. The Bank has set employee authorization limits to ensure data security and prevent employees from using system functions not related to their duties. Changes in authorization limits for employees at branches must be approved by authorized persons in the risk and credit management department at the relevant branch. Changes in authorization limits for head office employees must be approved by authorized persons in the risk and credit management department at the Bank's head office.

## Chapter 10 Risk Management, Internal Control and Internal Audit

The Bank has also developed a credit risk big data alert system that measures credit risk by analyzing data of its credit businesses, data in the PBoC Credit Reference System and data from third party sources, such as the Internet and media.

### 2. Liquidity Risk Management

Liquidity risk refers to the risk of failing to liquidate a position in a timely manner or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Factors affecting the Bank's liquidity include the term structure of its assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to the Bank's statutory deposit reserve ratio. The Bank is exposed to liquidity risk primarily in its lending, trading and investment activities, as well as in the management of its cash flow positions.

The objective of the Bank's liquidity risk management is, by establishing timely, reasonable and effective liquidity risk management mechanisms, to identify, measure, monitor and control liquidity risks, meet the liquidity needs of the Bank's assets, liabilities and off-balance businesses on a timely basis, and control liquidity risks at an acceptable level to maintain sustained and healthy operations.

The organizational framework of the Bank's liquidity risk management focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. The Board of Directors is the ultimate decision-making institution for liquidity risk management and assumes ultimate responsibility for the Bank's liquidity risk management. Senior management is responsible for liquidity risk management, and the Bank's assets and liabilities management committee is responsible for implementing liquidity risk management policies and procedures. The Bank's supervisory committee is responsible for supervising and evaluating the implementation of liquidity risk management by the Board of Directors and senior management. The financial planning department is responsible for the Bank's daily liquidity risk management.

The Bank continually improves liquidity risk management, strictly implements regulatory rules, closely monitors liquidity indicators, enhances maturity management of its cash flows, formulates emergency plans and enhances liquidity risk management and stress tests. The Bank manages liquidity risks with instruments such as position provisioning and monitoring, cash flow analyses, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

### 3. Market Risk Management

Market risk is the risk of loss in on-balance sheet and off-balance sheet positions arising from fluctuations in market prices. The Bank is exposed to market risks primarily through its banking book and trading book. The market risks associated with the banking book include interest rate risk and exchange rate risk. The primary market risks in the Bank's trading book arise from fluctuations in the value of financial instruments due to changes in interest and exchange rates.

## Chapter 10 Risk Management, Internal Control and Internal Audit

The Bank formulates and adjusts interest rates based on studies and forecasts of interest rate trends in financial markets. It manages the interest rate risk exposure of its RMB-denominated assets and liabilities on its balance sheet primarily by adjusting interest rates and optimizing the maturity profile of its assets and liabilities. The Bank seeks to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits. The Bank uses various measures to evaluate interest rate risks arising from its banking book, including but not limited to techniques and measures such as duration analysis, sensitivity analysis, scenario analysis and stress tests.

The Bank also seeks to keep the adverse impact of exchange rate fluctuations within an acceptable range by managing risk exposure limits and the currency structure of its assets and liabilities. In addition, the Bank endeavors to reduce the number of transactions involving high exchange rate risks, monitor major indicators, and inspect the positions of major foreign currencies on a daily basis.

The Bank employs a number of risk management techniques to monitor and control market risks in its financial market operations, including monitoring open positions, stop-loss limits and value-at-risk of the Bank's trading book on a daily basis. The Bank analyzes its potential market risks through various methods, including duration analysis, sensibility analysis, scenario analysis and value-at-risk analysis.

### 4. Operational Risk Management

Operational risk refers to the risk of loss caused by incomplete internal control procedures, failures of employees and IT systems or external events. Operational risk events include internal and external fraud, safety accidents in the workplace, damage to tangible assets, failures of risk, implementation, settlement and procedure management systems relating to customers, products and operations, as well as errors or malfunctions in IT systems.

The Bank's Board of Directors is ultimately responsible for ensuring the effectiveness of the Bank's operational risk management. The Bank's senior management is responsible for coordinating operational risk management through its risk management and internal control committee. The Bank's risk and credit management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of the Board and senior management. The Bank's audit department supervises and evaluates the management of operational risks and is responsible for independently examining and evaluating the appropriateness, effectiveness and efficiency of operational risk management policies, systems and procedures. The Bank has also established a GRC system for managing internal control and operational risks.

The Bank manages operation risk primarily through measures include (i) evaluating operational risks associated with new products, activities, procedures and systems before they are launched; (ii) collecting and analyzing data on operational risk-related loss to identify operational risks; (iii) re-assessing risk points for products and businesses which involve frequent

## Chapter 10 Risk Management, Internal Control and Internal Audit

occurrences of operational risk events or may incur significant losses from potential operational risk events; (iv) monitoring operational risks, and establishing an alert system to control the frequency of risk events that are likely to result in uncontrollable losses as well as reduce the potential losses from these events; (v) establishing a comprehensive operational risk reporting system to analyze and report operational risks in a timely manner; and (vi) enhancing internal training on operational risk management.

### 5. Reputational Risk Management

Reputational risk represents the risk of negative publicity caused by the Bank's operations, management or other activities or external events. The general office of the Bank's head office is primarily responsible for reputational risk management, and the Board bears the ultimate responsibility for reputational risk management. The Bank's reputational risk management measures primarily include (i) formulating detailed reputational risk management policies and guidelines for identifying, reporting and managing significant reputational incidents; (ii) supervising employees' performance of duties in minimizing negative risk events; (iii) analyzing public opinion, investigating reputational risks and analyzing the dissemination channels of reputational risks and related incidents; and (iv) enhancing internal training on reputational risk management.

### 6. IT Risk Management

IT risk refers to operational, reputational, legal and other risks arising from information technology due to natural factors, human factors, technical constraints, management defects and other factors. The Bank's IT risk management aims to identify, measure, monitor and control IT risks through the development of effective systems.

The Bank's IT management committee supervises and guides the Bank's IT activities. Its risk and credit management department formulates IT risk management procedures under the supervision of the Board and senior management. Its audit department audits IT risks. Its IT department and relevant business departments are responsible for the implementation of specific risk management measures, plans and proposals.

The Bank has adopted a variety of measures to manage IT risk, including (i) establishing systems, procedures and implementation rules for managing IT risks in accordance with relevant regulatory requirements; (ii) setting up an IT outsourcing risk management system with defined outsourcing management principles and strategies to eliminate outsourcing risks; and (iii) enhancing internal training on IT risks.

### 7. Legal and Compliance Risk Management

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. The Bank has a three-tier legal and compliance risk management structure at its head office, branches and sub-branches.

The legal and compliance department at the Bank's head office is in charge of managing the Bank's overall legal and compliance risks. In addition, the Bank has established internal control and compliance positions at its sub-branches to manage legal and compliance risks.



## Chapter 10 Risk Management, Internal Control and Internal Audit

The Bank's risk and internal control management committee supervises and leads its legal and compliance work. The Bank systematically manages its internal control compliance and legal affairs by building a management system for internal control compliance and operational risks. The Bank manages legal and compliance risks primarily through measures including (i) formulating our rules, systems and annual plans, and leading and urging the formulation and amendment thereof; (ii) enhancing the compliance review mechanism to identify and evaluate compliance risks associated with our business activities; (iii) uniformly managing standard contracts and other legal documents; (iv) managing and tracking our legal proceedings; (v) formulating an annual compliance management plan, stipulating the focus and plans for annual compliance work; (vi) managing related parties and related party transactions to control related party transactions in advance; (vii) optimizing the management mechanism for rectifications upon inspection, and enhancing the supervision and management of our rectifications upon inspection; (viii) closely monitoring regulatory changes and reporting compliance information and risks to our senior management and the relevant business lines; and (ix) enhancing internal training on legal and compliance, and issuing compliance alerts and reminders to employees through compliance proposals and internal publications.

### 8. Anti-money Laundering Management

The Bank has formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and other applicable regulations of the PBoC.

The Board of Directors oversees the Bank's bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of antimoney laundering rules and procedures, reviews reports from senior management on any major antimoney laundering matters and the Bank's overall money-laundering risk profile, and adjusts the Bank's anti-money laundering policies on a timely basis.

The Bank has established anti-money laundering steering groups at its head office, branches and sub-branches. The group is led by the chairman of the Board, and consists of responsible persons from different departments of the Bank including accounting operation department, financial planning department, risk and credit management department, etc.

The Bank conducts due diligence on its customers in accordance with anti-money laundering laws and regulations. The Bank reports large-scale and suspicious transactions to the China Anti-Money Laundering Monitoring and Analyzing Center on a daily basis through its anti-money laundering information monitoring and reporting system. The Bank also reports major reasonably suspected money laundering activities to the local branch of the PBoC and cooperates with their investigations, and reports to local public security units when necessary.

The Bank provides bank-wide anti-money laundering training on a regular basis based on employees' position and seniority. It also requires all new employees to participate in mandatory anti-money laundering training before commencing employment.

## Chapter 10 Risk Management, Internal Control and Internal Audit

### (III) Internal Audits

The Bank believes internal audits are essential to its stable operations and achievement of business objectives. The Bank conducts internal audits to monitor the compliance with laws and regulations and the implementation of its internal policies and procedures, with the objective of controlling risks at an acceptable level.

The Bank also aims to conduct effective risk management as well as optimize internal control compliance and its corporate governance structure, in an effort to improve its operations. The Bank adheres to the principles of independence, importance, prudence, objectiveness and relevance.

The Bank has adopted an independent and vertical internal audit management system, consisting of the audit committee of the Board of Directors, the audit committee of the Board of Supervisors and the audit department of its head office.

The Bank has formulated internal audit rules and systems that contain articles of association and criteria for internal audit. The audit department of its head office formulates annual internal audit plans based on regulatory requirements as well as its operation, management and business profile. The plans may be implemented after being approved by the audit committee of the Board of Directors.

The Bank has also established an audit management system, which may, through standard internal audit methods and procedures, audit its operation and management, information systems, risk profile and performance of employees of key positions, evaluate the effectiveness of its internal controls and corporate governance, and conduct follow-up audits on a timely basis.

### III. Regulation of the Bank's Inside Information

The Bank attaches great importance to information disclosure and insider information management. In order to strengthen the insider information and confidentiality work, safeguard the fairness of information disclosure and protect the legitimate rights and interests of investors, the Bank has formulated Measures for Information Disclosure of Bank of Gansu Co., Ltd. (《甘肅銀行股份有限公司信息披露辦法》) in accordance with PRC Company Law, PRC Securities Laws, the Hong Kong Listing Rules, and other applicable laws, regulations and normative documents.

The Bank has also formulated the Rules of Registration of Insiders and Confidentiality (《內幕信息知情人登記管理及保密制度》) which provide clear regulations for various aspects, including the coverage of the information that involves the Bank's operation and finance, or that may have significant impact on the market prices of the Bank's Shares and that has not been publicly disclosed on the information disclosure media designated by securities regulatory authorities, and the scope of insiders. In addition, the Bank has specified in detail management of insiders and confidentiality and the penalties for violating the internal measures governing insiders and inside information.

# Independent Auditor's Report



SHINEWING (HK) CPA Limited  
43/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

## To the Shareholders of Bank of Gansu Co., Ltd.

甘肅銀行股份有限公司

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

## OPINION

We have audited the consolidated financial statements of Bank of Gansu Co., Ltd (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 200 to 332, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 December 31, 2017, and of the 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 (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA 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 judgment, 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, we do not provide a separate opinion on these matters.

# Independent Auditor's Report

Key audit matters identified in our audit are summarised as follows:

- Impairment of loans and advances to customers
- Consolidation of structured entities
- Valuation of financial instruments

## Impairment of loans and advances to customers

Refer to note 22 in the consolidated financial statements and the accounting policies on pages 223 to 227.

The key audit matter	How the matter was addressed in our audit
<p>Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans. The calculation of both collective and individual impairment allowances is inherently judgemental for any bank.</p> <p>Collective impairment allowances are calculated using statistical models which approximate the impact of current economic and credit conditions on large portfolios of loans. The inputs to these models are subject to management judgement and model overlays are often required.</p> <p>For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan.</p> <p>The audit was focused on impairment due to the materiality of the balances amounted to approximately RMB125,254,681,000 and the subjective nature of the calculation involved in the determination of the impairment losses.</p>	<p>Our procedures were designed to review the management assessment of the indicators of impairment and challenge the reasonableness of the methods and assumptions used to estimate impairment allowances of loans and advances to customers.</p> <p>We have discussed the indicators of possible impairment allowances with management and, where such indicators were identified, assessing the management's impairment testing individually and collectively.</p> <p>For collective allowances, the appropriateness of the modelling policy, assumptions and methodology used for material portfolios was independently assessed by reference to the accounting standards and market practices, and model calculations were tested through re-performance.</p> <p>For specific impairments, we have challenged the assumptions, critical judgement and statistical models used by the management by assessing the reliability of the management's past estimates and taking into account the ageing at year end and the recent creditworthiness of borrowers.</p>

# Independent Auditor's Report

## Consolidation of structured entities

Refer to note 44 to the consolidated financial statements and the significant accounting policies on pages 216 to 217.

The key audit matter	How the matter was addressed in our audit
<p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a trust plans, asset management plans, wealth management products and investment funds.</p> <p>The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking consideration of 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 judgment and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. We identified determination of consolidation scope as a key audit matter due to the key judgement exercised by the management of the Group in assessing and concluding whether the Group, as an investor, controlled the structured entities.</p>	<p>We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities.</p> <p>Furthermore, we tested the design and operating effectiveness of the Group's controls over its structured entities, and assessed the adequacy of disclosures being made in the consolidated financial statements required under applicable accounting standards for these consolidated or unconsolidated structured entities.</p>

# Independent Auditor's Report

## Valuation of financial instruments

Refer to note 50 to the consolidated financial statements and the accounting policies on pages 220 to 230.

The key audit matter	How the matter was addressed in our audit
<p>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, in particular those required significant unobservable inputs, usually involve subjective judgment and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p> <p>As at 31 December 2017, financial assets measured at fair value amounted to approximately RMB13,296,871,000, representing 4.90% of total assets. Financial instruments which required either directly (i.e. as prices) or indirectly (i.e. derived from prices) inputs were categorised within level 2 of the fair value hierarchy. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter.</p>	<p>We assessed and tested the design and operating effectiveness of key controls related to valuation of financial instruments, including relevant data quality and IT systems involved.</p> <p>We evaluated the valuation techniques, inputs and assumptions used by the Group 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>We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant disclosures in the consolidated financial statements adequately presented the risk of the Group.</p>

## Independent Auditor's Report

### INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Bank are responsible for the other information. The other information comprises the all of 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 the other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS OF THE BANK AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Independent Auditor's Report

### 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, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibilities 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 judgment and maintain professional skepticism 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 of the Bank.
- 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.



## Independent Auditor's Report

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 Wong Chuen Fai.

### **SHINEWING (HK) CPA Limited**

Certified Public Accountants

### **Wong Chuen Fai**

Practising Certificate Number: P05589

### **Hong Kong**

March 27, 2018

# Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
Interest income		14,045,768	12,062,975
Interest expenses		(6,560,779)	(5,392,758)
Net interest income	6	7,484,989	6,670,217
Fee and commission income		462,750	327,366
Fee and commission expenses		(86,079)	(71,053)
Net fee and commission income	7	376,671	256,313
Net trading losses	8	(21,937)	(7,983)
Net gains arising from investment securities	9	116,992	—
Net exchange (losses)/gains		(13,203)	9,867
Other operating income, net	10	109,033	42,499
Operating income		8,052,545	6,970,913
Operating expenses	11	(2,052,230)	(1,903,834)
Impairment losses on assets	14	(1,523,033)	(2,504,347)
Operating profit		4,477,282	2,562,732
Share of profit of an associate	26	1,798	1,877
Profit before tax		4,479,080	2,564,609
Income tax expense	15	(1,115,351)	(643,605)
<b>Profit for the year</b>		<b>3,363,729</b>	<b>1,921,004</b>
Earnings per share			
— Basic and diluted (RMB cents)	16	44.62	25.47

# Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2017

	2017 RMB'000	2016 RMB'000
<b>Profit for the year</b>	<b>3,363,729</b>	1,921,004
<b>Other comprehensive income/(expenses) for the year:</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
— Remeasurement of defined benefit obligations	4,430	(1,211)
— Income tax relating to item that will not be reclassified subsequently	(1,108)	303
	<b>3,322</b>	(908)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
— Available-for-sale financial assets		
— Change in fair value recognised in investment revaluation reserve	(130,909)	(93,271)
— Income tax relating to item that may be reclassified subsequently	32,727	23,318
	<b>(98,182)</b>	(69,953)
<b>Other comprehensive expenses for the year, net of income tax</b>	<b>(94,860)</b>	(70,861)
<b>Total comprehensive income for the year</b>	<b>3,268,869</b>	1,850,143
<b>Profit for the year attributable to:</b>		
— Owners of the Bank	3,358,464	1,917,033
— Non-controlling interests	5,265	3,971
	<b>3,363,729</b>	1,921,004
<b>Total comprehensive income for the year attributable to:</b>		
— Owners of the Bank	3,263,604	1,846,172
— Non-controlling interests	5,265	3,971
	<b>3,268,869</b>	1,850,143

# Consolidated Statement of Financial Position

At December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>Assets</b>			
Cash and deposits with the central bank	17	29,084,415	25,079,115
Deposits with banks	18	30,811,728	24,571,875
Financial assets held under resale agreements	19	9,819,920	498,086
Financial assets at fair value through profit or loss	20	249,636	539,603
Interests receivables	21	1,268,593	668,953
Loans and advances to customers	22	125,254,681	104,099,125
Available-for-sale financial assets	23	13,057,235	6,199,558
Held-to-maturity investments	24	8,615,964	6,729,095
Debt securities classified as receivables	25	48,182,626	73,647,939
Interest in an associate	26	9,930	8,132
Property and equipment	28	1,752,840	1,428,269
Deferred tax assets	29	1,465,662	1,213,251
Other assets	30	1,574,387	373,356
<b>Total assets</b>		<b>217,147,617</b>	<b>245,056,357</b>

# Consolidated Statement of Financial Position

At December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Borrowings from the central bank	32	5,290,410	5,692,924
Deposits from banks and other financial institutions	33	20,178,373	35,777,400
Placements from banks and other financial institutions	34	1,050,000	—
Financial assets sold under repurchase agreements	35	5,817,526	4,580,481
Deposits from customers	36	192,230,603	171,165,321
Accrued staff costs	37	398,478	348,570
Taxes payable		572,856	1,091,992
Interests payable	38	4,305,460	2,329,230
Debts securities issued	39	23,960,759	10,134,895
Other liabilities	40	730,113	591,900
<b>Total liabilities</b>		<b>254,534,578</b>	<b>231,712,713</b>
<b>Equity</b>			
Share capital	41	7,525,991	7,525,991
Capital reserve	42	1,767,659	1,765,183
Defined benefit plan reserve		(744)	(4,066)
Investment revaluation reserve		(125,323)	(27,141)
Surplus reserve	42	892,953	557,666
General reserve	42	3,631,670	3,226,100
Retained earnings		2,889,067	271,460
Total equity attributable to owners of the Bank		16,581,273	13,315,193
Non-controlling interests		31,766	28,451
<b>Total equity</b>		<b>16,613,039</b>	<b>13,343,644</b>
<b>Total liabilities and equity</b>		<b>271,147,617</b>	<b>245,056,357</b>

The consolidated financial statements on pages 200 to 332 were approved and authorised for issue by the board of directors of the Bank on March 27, 2018 and are signed on its behalf by:

\_\_\_\_\_  
Mr. Li Xin  
Director

\_\_\_\_\_  
Mr. Lei Tie  
Director

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

	Attributable to owners of the Bank										
	Share Capital	Capital reserve	Defined benefit		Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non- controlling interests	Total
			plan	reserve							
			RMB'000	RMB'000							
<b>At January 1, 2016</b>	7,525,991	1,763,337	(3,158)	42,812	366,496	1,898,424	475,352	12,069,254	25,462	12,094,716	
Profit for the year	—	—	—	—	—	—	1,917,033	1,917,033	3,971	1,921,004	
Other comprehensive expenses for the year	—	—	(908)	(69,953)	—	—	—	(70,861)	—	(70,861)	
Total comprehensive (expenses)/income for the year	—	—	(908)	(69,953)	—	—	1,917,033	1,846,172	3,971	1,850,143	
Shareholders' injection (Note 42)	—	1,846	—	—	—	—	—	1,846	—	1,846	
Appropriation of profits											
— Appropriation to surplus reserve	—	—	—	—	191,170	—	(191,170)	—	—	—	
— Appropriation to general reserve	—	—	—	—	—	1,327,676	(1,327,676)	—	—	—	
— Dividends paid	—	—	—	—	—	—	(602,079)	(602,079)	—	(602,079)	
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(982)	(982)	
<b>At December 31, 2016</b>	7,525,991	1,765,183	(4,066)	(27,141)	557,666	3,226,100	271,460	13,315,193	28,451	13,343,644	

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

	Attributable to owners of the Bank									
	Share Capital RMB'000	Capital reserve RMB'000	Defined		Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
			benefit	Investment						
			plan reserve RMB'000	revaluation reserve RMB'000						
<b>At January 1, 2017</b>	7,525,991	1,765,183	(4,066)	(27,141)	557,666	3,226,100	271,460	13,315,193	28,451	13,343,644
Profit for the year	—	—	—	—	—	—	3,358,464	3,358,464	5,265	3,363,729
Other comprehensive income/(expenses) for the year	—	—	3,322	(98,182)	—	—	—	(94,860)	—	(94,860)
Total comprehensive income/(expenses) for the year	—	—	3,322	(98,182)	—	—	3,358,464	3,263,604	5,265	3,268,869
Shareholders' injection (Note 42)	—	2,476	—	—	—	—	—	2,476	—	2,476
Appropriation of profits										
— Appropriation to surplus reserve	—	—	—	—	335,287	—	(335,287)	—	—	—
— Appropriation to general reserve	—	—	—	—	—	405,570	(405,570)	—	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(1,950)	(1,950)
<b>At December 31, 2017</b>	7,525,991	1,767,659	(744)	(125,323)	892,953	3,631,670	2,889,067	16,581,273	31,766	16,613,039

# Consolidated Statement of Cash Flows

For the year ended December 31, 2017

	2017 RMB'000	2016 RMB'000
<b>Operating activities</b>		
Profit before tax for the year	4,479,080	2,564,609
<b>Adjustments for:</b>		
Depreciation of property and equipment	213,619	138,890
Amortisation of long term deferred expenses, land use rights and intangible assets	17,415	4,045
Impairment losses on assets	1,523,033	2,504,347
Interest expense on debts securities issued	945,992	445,795
(Gain)/loss on disposal of property and equipment	(4)	11
Gain on disposal of repossessed assets	(32,319)	(528)
Net unrealised trading (gains)/losses	(3,213)	10,349
Net gains arising from investment securities	(116,992)	—
Government grants	(75,520)	(41,696)
Interest income on financial investments	(4,608,705)	(4,630,364)
Share of profits of associates	(1,798)	(1,877)
	2,340,588	993,581
<b>Changes in operating assets</b>		
Net (increase)/decrease in deposits with the central bank	(3,567,941)	709,548
Net (increase)/decrease in deposits with the banks	(24,330,181)	1,270,297
Net decrease in financial assets at fair value through profit or loss	289,967	194,369
Net increase in loans and advances to customers	(22,418,062)	(17,228,381)
Net increase in other operating assets	(1,519,680)	(37,536)
	(51,545,897)	(15,091,703)
<b>Changes in operating liabilities</b>		
Net (decrease)/increase in borrowing from central bank	(402,514)	1,348,253
Net decrease in deposits and placements from banks and other financial institutions	(14,549,027)	(4,856,894)
Net increase/(decrease) in financial assets sold under repurchase agreements	1,237,045	(625,638)
Net increase in deposits from customers	21,065,282	30,144,694
Net increase in other operating liabilities	2,037,369	1,132,560
	9,388,155	27,142,975



# Consolidated Statement of Cash Flows

For the year ended December 31, 2017

	2017 RMB'000	2016 RMB'000
Cash (used in)/generated from operations	(39,817,154)	13,044,853
Income tax paid	(1,855,279)	(721,040)
<b>Net cash (used in)/from operating activities</b>	<b>(41,672,433)</b>	<b>12,323,813</b>
<b>Investing activities</b>		
Proceeds from disposal of investments	161,260,436	118,808,193
Interest income received from financial investments	4,334,545	4,771,206
Proceeds from disposal of property and equipment and other assets	42,787	766
Dividends received from associates	—	339
Payments on acquisition of investments	(144,797,792)	(136,541,655)
Payments on acquisition of property and equipment and intangible assets	(586,009)	(467,404)
Deposits paid for acquisitions of premises	—	(115,229)
Payments on acquisition of land use rights	—	(126)
<b>Net cash generated from/(used in) investing activities</b>	<b>20,253,967</b>	<b>(13,543,910)</b>
<b>Financing activities</b>		
Shareholders' injection	2,476	1,846
Government grants received	75,520	41,696
Proceeds from issue of new debt securities	48,607,720	35,519,255
Repayment of debt securities issued	(35,420,000)	(31,570,000)
Interest paid on debts securities issued	(170,775)	(163,200)
Debt securities issue expenses	(5,364)	—
Dividends paid	(296)	(602,079)
Dividends paid to non-controlling interests	(1,950)	(982)
<b>Net cash from financing activities</b>	<b>13,087,331</b>	<b>3,226,536</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(8,331,135)</b>	<b>2,006,439</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>25,552,017</b>	<b>23,545,578</b>
<b>Cash and cash equivalents at the end of the year (Note 46)</b>	<b>17,220,882</b>	<b>25,552,017</b>
Interest received	7,471,034	12,157,513
Interest paid (excluding interest expense on debts securities issued)	(1,149,929)	(4,750,796)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 1 General

The Bank was established in Lanzhou, Gansu Province, the People's Republic of China (the "PRC") on September 27, 2011 with the approval of China Banking Regulatory Commission (the "CBRC"). Prior to its establishment, the banking business was carried out by two city commercial banks (the "Predecessor Entities"), each being located in Gansu Province.

Pursuant to reorganisation initiated by the People's Government of Gansu Province, the Bank was established through the merger and reorganisation of the Predecessor Entities.

The Bank obtained its finance permit No. B1228H262010001 from the CBRC, and obtained its business license No. 91620000585910383X from the Gansu Administration of Industry and Commerce. The legal representative is Li Xin and the address of the registered office is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province.

As at December 31, 2017, the Bank has a head office, 12 branches, 187 sub-branches, 2 micro-to-small enterprise sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (collectively referred to as the "Group") are the provision of corporate and retail deposits, loans and advances, payment and settlement services, as well as other banking services as approved by the CBRC. The Group operates in mainland China.

On 18 January 2018, the Bank's H shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock code: 2139).

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Bank and its subsidiary.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 2 Application of new and revised international financial reporting standards (“IFRSs”)

The Group has consistently adopted all of the new and revised International Accounting Standards (“IASs”), IFRSs’ amendments and the related interpretations (“IFRICs”) (herein collectively referred to as the “IFRSs”) which are effective for the Group’s financial year beginning on 1 January 2017.

### New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 (2014)	Financial Instruments <sup>(1)</sup>
IFRS 15	Revenue from Contracts with Customers <sup>(1)</sup>
IFRS 16	Leases <sup>(2)</sup>
IFRS 17	Insurance Contracts <sup>(3)</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>(1)</sup>
IFRIC 23	Uncertainty over Income Tax Treatments <sup>(2)</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2014–2016 Cycle <sup>(1)</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle <sup>(2)</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transaction <sup>(1)</sup>
Amendments to IFRS 4	Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i> <sup>(1)</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>(2)</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>(4)</sup>
Amendments to IAS 19	Employee Benefits <sup>(2)</sup>
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures <sup>(2)</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>(1)</sup>

<sup>(1)</sup> Effective for annual periods beginning on or after January 1, 2018.

<sup>(2)</sup> Effective for annual periods beginning on or after January 1, 2019.

<sup>(3)</sup> Effective for annual periods beginning on or after January 1, 2021.

<sup>(4)</sup> Effective date not yet been determined.

Except as described below, the application of other new and revised IFRSs will have no material impact on the Group’s consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 2 Application of new and revised international financial reporting standards (“IFRSs”) (continued)

### IFRS 9 (2014) Financial instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the consolidated financial statements. A finalised version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets. The finalised version of IFRS 9 also introduces an “expected credit loss” model for impairment assessments.

Key requirements of IFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of IFRS 9 (2014) to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 2 Application of new and revised international financial reporting standards (“IFRSs”) (continued)

### IFRS 9 (2014) Financial instruments (continued)

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after January 1, 2018 with early application permitted.

The directors of the Bank has performed a preliminary analysis of the Group's financial instruments as at December 31, 2017 based on the fact and circumstances existing at that date, and assessed the impact of adoption of IFRS 9 (2014) on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures, as follows:

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 2 Application of new and revised international financial reporting standards (“IFRSs”) (continued)

### Classification and measurement

Available-for-sale debt and equity investments as disclosed in Note 23: these financial assets will either be measured as fair value through profit or loss (“FVTPL”) or be designated as FVTOCI (subject to fulfillment of the designation criteria); however the fair value gains or losses accumulated in the investment revaluation reserve will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current accounting treatment. This will affect the amounts recognised in the Group’s profit or loss and other comprehensive income but will not affect total comprehensive income.

Financial assets at FVTPL as disclosed in Note 20 qualify for designation as measured at FVTPL under IFRS 9.

All other financial assets, depend on the Group’s business model and contractual cash flow characteristics of the respective financial assets, will be measured either at amortised cost, FVTPL or FVTOCI.

All other financial liabilities will continue to be measured at amortised cost.

### Impairment

Financial assets measured at amortised cost will be subject to the impairment provision of IFRS 9.

The Bank has already commenced to carry out the implementation work of IFRS 9, including revising the Group’s accounting policies, establishing the new financial asset classification work, revising the new financial asset impairment model and the related disclosures in the financial statements in accordance with IFRS 9. The Bank has also updating the relevant internal controls and policies as well as the related information technology (“IT”) system to meet the IFRS 9 implementation requirements. Currently, the Bank is carrying out all necessary work for implementation of IFRS 9 and anticipates that the Bank is well prepared for the implementation of IFRS 9 in early 2018.

Based on the current assessment made by the directors of the Bank, the Bank anticipated that the application of IFRS 9 would decrease the total equity as at January 1, 2018 by no more than 3% of the amount as at December 31, 2017.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 2 Application of new and revised international financial reporting standards (“IFRSs”) (continued)

### IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

IFRS 15 will become effective for annual periods beginning on or after January 1, 2018 with early application permitted. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Under IFRS 15, revenue is recognised for each of the performance obligations when control over a good or service is transferred to a customer. The directors of the Bank have preliminarily assessed each type of the performance obligations and consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18 Revenue. Furthermore, IFRS 15 requires the transaction price to be allocated to each performance obligation on a relative stand-alone selling price basis, which may affect the timing and amounts of revenue recognition, and results in more disclosures in the consolidated financial statements. However, the directors of the Bank expect that the adoption of IFRS 15 will not have a material impact on the timing and amounts of revenue recognised based on the existing business model of the Group as at December 31, 2017.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 2 Application of new and revised international financial reporting standards (“IFRSs”) (continued)

### IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related Interpretations when it becomes effective.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 2 Application of new and revised international financial reporting standards (“IFRSs”) (continued)

### IFRS 16 Leases (continued)

IFRS 16 will become effective for annual periods beginning on or after January 1, 2019 with early application permitted provided that the entity has applied IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of RMB370,935,000 as disclosed in Note 52(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Bank are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under IFRS 16. The directors of the Bank expect that the adoption of IFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The Bank expects that, as a lessor, there will be no significant impact on the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB on the historical cost basis except for certain financial instruments that are measured at fair values and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price), regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (i.e. its subsidiary). Control is achieved where the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses 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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Basis of consolidation (continued)

Where necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Group's accounting policies.

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.

### Investment in a subsidiary

Investment in a subsidiary is included in the Bank's statement of financial position at cost less accumulated impairment losses, if any.

### Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

A spot exchange rate is quoted by The People's Bank of China (the "PBOC"), the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined by a systematic and rational method, normally the average exchange rate of the current period.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits with banks and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

### Interest in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Interest in an associate (continued)

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Group losing significant influence over the associate, the Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in interest income arising from financial assets at fair value through profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the net trading (losses)/gains in the consolidated statements of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 50.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans and advances to customers, debt securities classified as receivables and deposits with banks) are stated at amortised cost using the effective interest method, less any identified impairment losses.

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method, less any identified impairment losses.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Available-for-sale financial assets (continued)

Interest income is recognised in profit or loss using the effective interest method.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

#### Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for financial assets because of financial difficulties;

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Impairment loss on financial assets (continued)

##### *Loans and receivables*

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

##### *Individual assessment*

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

##### *Collective assessment*

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Impairment loss on financial assets (continued)

##### *Homogeneous groups of loans not considered individually significant*

For homogeneous groups of loans that are not considered individually significant, the Group adopts a loan mitigation rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

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

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

The collective impairment loss is assessed after taking into account:

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Impairment loss on financial assets (continued)

##### *Individually assessed loans with no objective evidence of impairment on an individual basis (continued)*

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

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

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Impairment loss on financial assets (continued)

##### *Individually assessed loans with no objective evidence of impairment on an individual basis (continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investments revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into other financial liabilities.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

#### Offsetting financial instruments

Financial assets and liabilities of the Group are offset and the net amount presented in the consolidated statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### Financial guarantees contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Financial instruments (continued)

#### Offsetting financial instruments (continued)

##### *Derecognition*

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Fair value measurement

When measuring fair value for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 — Quoted (unadjusted) market 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.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

### Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the consolidated statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the consolidated statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Property and equipment

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

Property and equipment including buildings and leasehold improvement for use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation/amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of property and equipment, other than construction in progress, are as follows:

Classes	Estimated residual value rates	Useful lives
Premises	5%	20 years
Electronic equipment	3%	3 years
Motor vehicles	3%	5 years
Leasehold improvement	0%	3 years or shorter of economic useful lives
Computer software	0%	3 years or shorter of economic useful lives
Office equipment	3%	5 years

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Land use rights

Land use rights are classified in other assets and amortised over a straight-line basis over their authorised useful lives.

### Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Impairment on tangible and intangible assets other than goodwill and financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Employee benefits

#### Salaries and allowances

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### Contributions from employees or third parties to defined benefit plans

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the measurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

#### Other social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees' salaries and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Employee benefits (continued)

#### Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in respect of their services in the current and prior periods.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for services provided in the normal course of business.

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

- Fee and commission income is recognised in profit or loss when the corresponding service is provided.
- Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).
- Other income is recognised on an accrual basis.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Expenses recognition

#### Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

#### Other expenses

Other expenses are recognised on an accrual basis.

### Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the state and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group include, but are not limited to:

- (a) the Bank's subsidiary;
- (b) investors that exercise significant influence over the Group;
- (c) key management personnel of the Group and close family members of such individuals;
- (d) other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 3 Basis of preparation and presentation and significant accounting policies (continued)

### Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

### Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as a subsequent event.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Bank are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Bank have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

#### The classification of the held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Group has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

#### Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 4 Critical accounting judgements and key sources of estimation uncertainty (continued)

### Critical judgement in applying accounting policies (continued)

#### Significant influence over an associate

As per Note 26 to the consolidated financial statements, the directors of the Bank considered Gansu Jingchuan CDB Village Bank\* (“甘肅涇川國開村鎮銀行股份有限公司”, “Gansu Jingchuan”), in which the Group has 16.67% equity interest in, is an associate of the Group as the Group has significant influence over Gansu Jingchuan by virtue of its contractual right to appoint one out of seven directors to the board of directors of Gansu Jingchuan. The Group is able to exercise significant influence in deciding the financial and operating policies of the associate.

#### Determination of control over investees

Management applies its judgement to determine whether the control indicators indicate that the Group controls a non-principal guaranteed wealth management products and an asset management plans.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such structured entities usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, the Group's aggregate economic interest in each case is not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Group has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 44.

\* The English translation is for identification only.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 4 Critical accounting judgements and key sources of estimation uncertainty (continued)

### Critical judgement in applying accounting policies (continued)

#### Legal title of land and buildings

As detailed in Note 28, certain of the Group's premises as at December 31, 2016 and 2017 of which title deeds were not yet finalised by the Group. Although the Group had not obtained the relevant legal titles, the premises were recognised in the consolidated statement of financial position as at December 31, 2016 and 2017 on the grounds that the Group is in substance controlling these land and buildings.

At December 31, 2017, the premises with carrying amount of approximately RMB848,659,000 was in the process of finalising title deeds (2016: approximately RMB899,857,000).

#### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Impairment losses of loans and advances and debt securities classified as receivables

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances and debt securities classified as receivables. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

As at December 31, 2017 the carrying amount of loan and advances to customers was approximately RMB125,254,681,000 (2016: approximately RMB104,099,125,000), net of accumulated impairment loss of approximately RMB5,028,961,000 (2016: approximately RMB3,755,955,000).

As at December 31, 2017 the carrying amount of debt securities classified as receivables was approximately RMB48,182,626,000 (2016: approximately RMB73,647,939,000), net of accumulated impairment loss of approximately RMB2,126,315,000 (2016: approximately RMB1,879,493,000).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 4 Critical accounting judgements and key sources of estimation uncertainty (continued)

### Key sources of estimation uncertainty (continued)

#### Impairment losses of available-for-sale financial assets and held-to-maturity investments

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale financial assets and held-to-maturity investments, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, change of technology as well as operating and financing cash flows. This requires a significant level of judgement of management, which would affect the amount of impairment losses.

As at December 31, 2017, the carrying amount of available-for-sale financial assets was approximately RMB13,057,235,000 (2016: approximately RMB6,199,558,000). No accumulated impairment loss was recognised.

As at December 31, 2017, the carrying amount of held-to-maturity financial assets was approximately RMB8,615,964,000 (2016: approximately RMB6,729,095,000), net of accumulated impairment loss of approximately RMB19,860,000 (2016: approximately RMB22,476,000).

#### Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments and discounted cash flow analysis. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

As at December 31, 2017 the financial assets that are measured at fair value on a recurring basis is approximately RMB13,296,871,000 (2016: approximately RMB6,729,161,000).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 4 Critical accounting judgements and key sources of estimation uncertainty (continued)

### Key sources of estimation uncertainty (continued)

#### Impairment of non-financial assets

Non-financial assets (i.e., property and equipment, repossessed assets, deposits paid for acquisitions of premises, land use rights, long term deferred expenses and intangible assets) are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

As at December 31, 2017, the carrying amount of non-financial assets was approximately RMB1,998,690,000 (2016: approximately RMB1,676,337,000), net of accumulated impairment loss of approximately RMB634,000 (2016: approximately RMB42,022,000).

#### Depreciation and amortisation

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

As at December 31, 2017 the carrying amount of property and equipment was approximately RMB1,752,840,000 (2016: approximately RMB1,428,269,000), net of accumulated depreciation and impairment of approximately RMB559,367,000 (2016: approximately RMB354,979,000).

As at December 31, 2017 the carrying amount of intangible assets was approximately RMB1,582,000 (2016: approximately RMB80,000), net of accumulated amortisation of approximately RMB3,420,000 (2016: approximately RMB520,000).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 4 Critical accounting judgements and key sources of estimation uncertainty (continued)

### Key sources of estimation uncertainty (continued)

#### Impairment of interest in an associate

In determining whether the interest in an associate are impaired, the directors of the Bank assesses the recoverable amount of the interest in an associate which is the higher of its fair value less costs of disposal and its value in use. An impairment loss is made if the carrying amount of interest in an associate exceeds its recoverable amount. In determining the recoverable amount of the interests in an associate, the directors of the Bank require an estimation of the future cash flows expected to arise from the expected dividend yield from the associates in order to determine the value in use of the interests in associates.

As at December 31, 2017, the carrying amount of interest in an associate was approximately RMB9,930,000 (2016: approximately RMB8,132,000). No impairment loss was recognised during the year ended December 31, 2017 and 2016.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 5 Taxation

The Group's main applicable taxes and tax rates are as follows:

**(a) Business tax**

Business tax is charged at 5% on taxable income.

**(b) Urban maintenance and construction tax**

Urban maintenance and construction tax is calculated as 5%–7% of business tax and value added tax.

**(c) Education surcharge**

Education surcharge is calculated as 3% of business tax and value added tax.

**(d) Local education surcharge**

Local education surcharge is calculated as 2% of business tax and value added tax.

**(e) Income tax**

The income tax is calculated on taxable income. The statutory income tax rate is 15%–25%.

**(f) Value added tax**

Pursuant to the “Circular regarding the Pilot Program on Comprehensive Implementation of Value Added Tax Reform” issued by the Ministry of Finance of the PRC (the “MOF”) and the State Administration of Taxation, the Group is required to pay value added tax instead of business tax from May 1, 2016. Value added tax and related underlying value of the invoice for value added taxable income and expenses shall be stated and accounted for separately.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 6 Net interest income

	2017	2016
	RMB'000	RMB'000
Interest income arising from		
– Deposits with the central bank	<b>387,413</b>	342,582
– Deposits with banks	<b>974,517</b>	453,277
– Placements with banks and other financial institutions	<b>1,723</b>	83
– Financial assets at fair value through profit or loss	<b>79,084</b>	38,898
– Loans and advances to customers:		
Corporate loans and advances	<b>5,918,470</b>	5,608,428
Personal loans and advances	<b>945,083</b>	460,536
Discounted bills	<b>881,212</b>	506,925
– Financial assets held under resale agreements	<b>249,561</b>	21,882
– Investments	<b>4,608,705</b>	4,630,364
	<b>14,045,768</b>	12,062,975
Less: Interest expenses arising from		
– Borrowing from the central bank	<b>(130,520)</b>	(147,349)
– Deposits from banks and other financial institutions	<b>(1,712,482)</b>	(1,817,877)
– Placements from banks and other financial institutions	<b>(8,973)</b>	(2,777)
– Deposits from customers:		
Corporate customers	<b>(1,095,315)</b>	(1,126,794)
Individual customers	<b>(2,437,434)</b>	(1,761,339)
– Financial assets sold under repurchase agreements	<b>(230,063)</b>	(90,827)
– Debts securities issued	<b>(945,992)</b>	(445,795)
	<b>(6,560,779)</b>	(5,392,758)
	<b>7,484,989</b>	6,670,217

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 7 Net fee and commission income

	2017	2016
	RMB'000	RMB'000
Fee and commission income		
– Wealth management service fees	<b>193,895</b>	125,002
– Bank acceptance bills service fees	<b>14,676</b>	31,189
– Agency services fees	<b>144,391</b>	99,594
– Settlement and clearing fees	<b>52,997</b>	41,337
– Letter of guarantee service fees	<b>8,442</b>	5,674
– Others	<b>48,349</b>	24,570
	<b>462,750</b>	327,366
Fee and commission expense		
– Settlement and clearing fees	<b>(2,763)</b>	(2,894)
– Bank card service fees	<b>(70,528)</b>	(62,348)
– Others	<b>(12,788)</b>	(5,811)
	<b>(86,079)</b>	(71,053)
	<b>(376,671)</b>	256,313

### 8 Net trading (losses)/gains

	2017	2016
	RMB'000	RMB'000
Trading financial instruments		
Realised (losses)/gains from debt securities	<b>(25,150)</b>	2,366
Unrealised gains/(losses) from debt securities	<b>3,213</b>	(10,349)
	<b>(21,937)</b>	(7,983)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 9 Net gains arising from investment securities

	2017	2016
	RMB'000	RMB'000
Net gains on disposal of available-for-sale financial assets	<b>116,992</b>	—

## 10 Other operating income, net

	2017	2016
	RMB'000	RMB'000
Government grants (Note)	<b>75,520</b>	41,696
Gain/(loss) on disposal of property and equipment	<b>4</b>	(11)
Gain on disposal of repossessed assets	<b>32,319</b>	528
Rental income	<b>1,737</b>	5,013
Others operating expenses	<b>(547)</b>	(4,727)
	<b>109,033</b>	42,499

Note: Government grants recognised as other income are awarded to the Group by the PRC government as incentives primarily to encourage the development of the Group and the contribution to the local economic development. The government grants are one-off with no specific condition attached.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 11 Operating expenses

	2017	2016
	RMB'000	RMB'000
Staff costs (including directors' emoluments)		
— Salaries and bonuses	<b>869,652</b>	789,114
— Staff welfares	<b>36,330</b>	34,349
— Social insurance	<b>182,985</b>	117,542
— Housing allowances	<b>41,897</b>	36,689
— Labour union and staff education expenses	<b>23,827</b>	15,257
— Long term staff welfare expenses	<b>860</b>	260
— Others	<b>1,782</b>	13,911
	<b>1,157,333</b>	1,007,122
Premises and equipment expenses		
— Depreciation of property and equipment	<b>213,619</b>	138,890
— Amortisation of long term deferred expenses	<b>11,637</b>	3,066
— Amortisation of land use rights	<b>2,878</b>	859
— Amortisation of intangible assets	<b>2,900</b>	120
— Rental and property management expenses	<b>178,311</b>	170,813
	<b>409,345</b>	313,748
Business tax and surcharges	<b>54,637</b>	149,847
Other general and administrative expenses (Note)	<b>430,915</b>	433,117
	<b>2,052,230</b>	1,903,834

Note: Auditor's remuneration for the year ended December 31, 2017 was approximately RMB1,050,000 (2016: approximately RMB987,000).

Listing expenses for the years ended December 31, 2017 was approximately RMB9,924,000 (2016: nil).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 12 Directors' and supervisors' emoluments

The emoluments before individual income tax of directors and supervisors of the Bank paid and/or payable by the Group during the year ended December 31, 2017 and 2016 are set out below:

	For the year ended December 31, 2017				
	Fees	Salaries and allowances	Retirement benefits scheme contributions	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
LI Xin <sup>(9)</sup>	—	438	72	276	786
LIU Qing <sup>(2), (9)</sup>	—	364	66	228	658
LEI Tie <sup>(9)</sup>	—	350	72	225	647
<b>Non-executive directors</b>					
WU Changhong <sup>(10)</sup>	—	—	—	—	—
LI Hui <sup>(10)</sup>	—	—	—	—	—
GUO Jirong <sup>(10)</sup>	—	—	—	—	—
ZHANG Youda <sup>(10)</sup>	—	—	—	—	—
ZHANG Hongxia <sup>(10)</sup>	143	—	—	—	143
<b>Independent non-executive directors</b>					
TIAN Ruizhang <sup>(3), (10)</sup>	95	—	—	—	95
CHEN Aiguo <sup>(1), (10)</sup>	143	—	—	—	143
ZHANG Ping <sup>(3), (10)</sup>	95	—	—	—	95
TANG Xiuli <sup>(5), (10)</sup>	62	—	—	—	62
LUO Mei <sup>(5), (10)</sup>	62	—	—	—	62
WONG Sincere <sup>(5), (10)</sup>	62	—	—	—	62
<b>Supervisors</b>					
YANG Qian	—	350	72	225	647
XU Yongfeng	—	383	72	899	1,354
LUO Zhenxia	—	365	65	527	957
LIU Yongchong	—	—	—	—	—
LIU Xiaoyu	—	—	—	—	—
LI Yongjun	—	—	—	—	—
ZHU Xingjie <sup>(1)</sup>	—	—	—	—	—
YANG Zhenjun <sup>(5)</sup>	—	—	—	—	—
DONG Ying <sup>(5)</sup>	—	—	—	—	—
LUO Yi <sup>(4)</sup>	—	—	—	—	—
	662	2,250	419	2,380	5,711

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 12 Directors' and supervisors' emoluments (continued)

	For the year ended December 31, 2016				
	Fees	Salaries and allowances	Retirement benefits scheme contributions	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
LI Xin <sup>(9)</sup>	—	441	69	276	786
CHEN Jinggong <sup>(6), (9)</sup>	—	—	—	—	—
LIU Qing <sup>(9)</sup>	—	360	69	229	658
LEI Tie <sup>(9)</sup>	—	353	69	225	647
<b>Non-executive directors</b>					
QIAO Songqing <sup>(7), (10)</sup>	—	—	—	—	—
WU Changhong <sup>(6), (10)</sup>	—	—	—	—	—
LI Hui <sup>(10)</sup>	—	—	—	—	—
XIA Tian <sup>(7), (10)</sup>	—	—	—	—	—
SUN Hongyuan <sup>(7), (10)</sup>	—	—	—	—	—
GUO Jirong <sup>(6), (10)</sup>	—	—	—	—	—
ZHANG Youda <sup>(6), (10)</sup>	—	—	—	—	—
ZHANG Hongxia <sup>(10)</sup>	143	—	—	—	143
<b>Independent non-executive directors</b>					
TIAN Ruizhang <sup>(10)</sup>	143	—	—	—	143
CHEN Aiguo <sup>(1), (6), (10)</sup>	24	—	—	—	24
ZHANG Ping <sup>(6), (10)</sup>	24	—	—	—	24
<b>Supervisors</b>					
YANG Qian	—	353	69	225	647
XU Yongfeng	—	334	69	669	1,072
LUO Zhenxia	—	293	62	641	996
PU Peiwen <sup>(7)</sup>	—	—	—	—	—
ZHANG Chen <sup>(7)</sup>	—	—	—	—	—
LIU Yongchong <sup>(6)</sup>	—	—	—	—	—
LIU Xiaoyu <sup>(6)</sup>	—	—	—	—	—
LI Yongjun	—	—	—	—	—
ZHU Xingjie	—	—	—	—	—
	334	2,134	407	2,265	5,140

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 12 Directors' and supervisors' emoluments (continued)

Notes:

- (1) Resigned on March 27, 2018.
- (2) Resigned on November 1, 2017.
- (3) Resigned on July 27, 2017.
- (4) Appointed on March 27, 2018.
- (5) Appointed on August 12, 2017.
- (6) Resigned on February 25, 2016.
- (7) Resigned on November 20, 2016.
- (8) Appointed on November 20, 2016.
- (9) The emolument represent the payments to the directors in respect of their service in connection with management affair of the Group.
- (10) The emolument represent the payments to the directors in respect of their service as a director.

Mr. LI Xin is also the chief executive of the Bank and his emoluments disclosed above include those for services rendered by him as the chief executive.

No directors of the Bank waived or agreed to waive any emolument paid by the Group during the year ended December 31, 2017 and 2016. No emoluments were paid by the Group to the directors of the Bank as an incentive payment for joining the Group or as compensation for loss of office during the year ended December 31, 2017 and 2016.

Discretionary bonus was determined with reference to the Group's operating results, individual performance and comparable market statistics for such financial year.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 13 Individuals with highest emoluments

None of the directors or supervisors of the Group whose emolument are disclosed in Note 12 above are the five individuals with the highest emoluments for the years ended December 31, 2017 and 2016.

The emoluments of the five individuals with the highest emoluments in the Group for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
	RMB'000	RMB'000
Salaries and allowances	1,218	1,416
Retirement benefits scheme contributions	336	345
Discretionary bonuses	16,379	6,243
	17,933	8,004

Their emoluments were within the following bands:

	2017	2016
	No. of employees	No. of employees
RMB1,000,001–1,500,000	—	3
RMB1,500,001–2,000,000	2	1
RMB2,000,001–2,500,000	1	—
RMB2,500,001–3,000,000	—	1
RMB4,500,000–5,000,000	1	—
RMB7,000,000–7,500,000	1	—

None of these individuals received any inducement to join or upon joining the Group or compensation for loss of office, or waived any emoluments during the year (2016: nil).



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 14 Impairment losses on assets

	2017 RMB'000	2016 RMB'000
Impairment losses on:		
Held-to-maturity investments		
Charge for the year	—	3,771
Reverse for the year	(2,616)	—
	(2,616)	3,771
Other receivables, prepayments and repossessed assets		
Charge for the year	15,687	3,511
Reverse for the year	—	(1,077)
	15,687	2,434
Loans and advances to customers	1,262,506	1,336,198
Debt securities classified as receivables	246,822	1,161,944
Property and equipment	634	—
	1,523,033	2,504,347

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 15 Income tax expense

(a) Income tax:

	2017	2016
	RMB'000	RMB'000
Current tax:		
– PRC Enterprise Income Tax	1,347,028	1,236,102
Over-provision in prior years:		
– PRC Enterprise Income Tax	(10,885)	–
Deferred tax (Note 29)		
– Current year	(220,792)	(592,497)
	<b>1,115,351</b>	643,605

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%. Pingliang Jingning Chengji Rural Bank Co., Ltd.\* ("平涼市靜寧成紀村鎮銀行股份有限公司", "Jianning Chengji Rural Bank"), a subsidiary of the Bank, obtained approvals from tax authorities to adopt the preferential income tax rate of 15%.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 15 Income tax expense (continued)

- (b) The tax charge for the year can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	2017	2016
	RMB'000	RMB'000
Profit before tax	<b>4,479,080</b>	2,564,609
Tax at domestic income tax rate of 25%	<b>1,119,770</b>	641,152
Tax effect of share of profit of an associate	<b>(449)</b>	(469)
Tax effect of expenses not deductible for tax purpose (Note i)	<b>16,249</b>	10,940
Tax effect of income that are not taxable for tax purpose (Note ii)	<b>(7,668)</b>	(6,769)
Over-provision in respect of prior years	<b>(10,885)</b>	—
Income tax on concessionary rate	<b>(1,666)</b>	(1,249)
Income tax expense	<b>1,115,351</b>	643,605

Notes:

- (i) Expenses not deductible for tax purpose consists of a portion of expenditures, such as entertainment expenses and donations, which exceed the tax deduction limits in accordance with PRC tax regulation.
- (ii) Income not taxable for tax purpose consists of interest income from micro loans to farmers, which is exempted from income tax under the PRC tax regulation.

Details of the deferred taxation are set out in Note 29.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 16 Earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Bank is based on the following data:

	2017	2016
Profit for the year attributable to owners of the Bank (RMB'000)	<b>3,358,464</b>	1,917,033
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	<b>7,525,991</b>	7,525,991

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year ended December 31, 2017 and 2016.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 17 Cash and deposits with the central bank

	2017	2016
	RMB'000	RMB'000
Cash on hand	492,372	519,973
Deposits with the central bank		
— Statutory deposit reserve (Note a)	25,057,157	21,489,159
— Surplus deposit reserve (Note b)	3,521,880	3,056,920
— Fiscal deposits	13,006	13,063
	28,592,043	24,559,142
	29,084,415	25,079,115

Notes:

- (a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at December 31, 2017 and 2016, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2017	2016
Reserve ratio for RMB deposits	13.5%	13.5%

The statutory deposit reserves are restricted balances with central bank and are not available for the Bank's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of cash settlement and other kinds of unrestricted deposits.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 18 Deposits with banks

Analysed by type and location of counterparty

	2017	2016
	RMB'000	RMB'000
Deposits in Mainland China		
— Banks	<b>30,693,932</b>	24,568,254
Deposits outside Mainland China		
— Banks	<b>117,796</b>	3,621
	<b>30,811,728</b>	24,571,875

## 19 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	2017	2016
	RMB'000	RMB'000
In Mainland China		
— Banks	<b>5,133,772</b>	—
— Other financial institutions	<b>4,686,148</b>	498,086
	<b>9,819,920</b>	498,086

(b) Analysed by type of security held

	2017	2016
	RMB'000	RMB'000
Debt securities		
— Government	<b>2,084,184</b>	—
— Banks and other financial institutions	<b>7,735,736</b>	498,086
	<b>9,819,920</b>	498,086

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 20 Financial assets at fair value through profit or loss

	2017	2016
	RMB'000	RMB'000
Financial assets held for trading (Note)	<b>249,636</b>	539,603

Note:

	2017	2016
	RMB'000	RMB'000
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	–	539,603
– Corporations	<b>249,636</b>	–
	<b>249,636</b>	539,603
Analysed as:		
Listed outside Hong Kong	<b>249,636</b>	539,603

As at December 31, 2017, no debt securities held for trading were subject to material restrictions on the realisation (2016: nil).

The above debt securities traded on the China Interbank Bond Market are included in “Listed outside Hong Kong”.

## 21 Interests receivables

	2017	2016
	RMB'000	RMB'000
Interests receivables arising from:		
– Investments	<b>652,220</b>	378,060
– Loans and advances to customers	<b>415,766</b>	242,223
– Financial assets held under resale agreements	<b>12,306</b>	107
– Deposits and placements with banks and other financial institutions	<b>175,008</b>	37,375
– Deposits with the central bank	<b>13,293</b>	11,188
	<b>1,268,593</b>	668,953

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers

(a) Analysed by nature

	2017	2016
	RMB'000	RMB'000
<b>Gross loans and advances to customers</b>		
Corporate loans and advances	<b>97,253,744</b>	85,271,605
Personal loans and advances		
— Personal business loans	<b>6,693,380</b>	3,696,696
— Personal consumption loans	<b>3,962,666</b>	1,703,990
— Residential and commercial mortgage loans	<b>3,982,054</b>	2,501,194
	<b>14,638,100</b>	7,901,880
Discounted bills	<b>18,391,798</b>	14,681,595
	<b>130,283,642</b>	107,855,080
<b>Less: Provision for impairment losses</b>		
— Individually assessed	<b>(949,506)</b>	(709,990)
— Collectively assessed	<b>(4,079,455)</b>	(3,045,965)
	<b>(5,028,961)</b>	(3,755,955)
	<b>125,254,681</b>	104,099,125



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

(b) Analysed by industry sector

	At December 31, 2017		
	Amount		Loans and advances secured by collaterals
	RMB'000	Percentage	RMB'000
<b>Gross loans and advances to customers</b>			
Corporate loans and advances			
– Wholesale and retail	18,232,392	13.99%	9,334,702
– Agriculture, forestry, animal husbandry and fishery	15,728,151	12.07%	5,251,893
– Manufacturing	15,743,284	12.08%	7,051,762
– Real estate	13,685,806	10.50%	12,177,921
– Construction	12,101,272	9.29%	7,199,645
– Mining	7,087,525	5.44%	1,821,125
– Water, environment and public facility management	3,133,170	2.40%	1,480,094
– Cultural, sports and entertainment	2,628,010	2.02%	1,995,813
– Electricity, gas and water production and supply	2,545,332	1.95%	771,012
– Leasing and business services	1,695,555	1.30%	1,451,980
– Education	1,384,642	1.06%	315,550
– Transportation, storage and postal services	1,173,820	0.90%	653,740
– Accommodation and catering	1,172,340	0.90%	863,122
– Health and social services	463,376	0.36%	35,500
– Resident and other services	224,364	0.17%	119,724
– Scientific research, technical services and geological prospecting	126,005	0.10%	55,535
– Information transmission, computer services and software	74,300	0.06%	25,200
– Public administration, social security and social organisations	51,400	0.04%	26,400
– Finance	3,000	0.00%	3,000
	<b>97,253,744</b>	<b>74.65%</b>	<b>50,633,718</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

(b) Analysed by industry sector (continued)

	At December 31, 2017		
	Amount RMB'000	Percentage	Loans and advances secured by collaterals RMB'000
Personal loans and advances	14,638,100	11.24%	7,762,188
Discounted bills	18,391,798	14.12%	—
	130,283,642	100.00%	58,395,906
<b>Less: Provision for impairment losses</b>			
— Individually assessed	(949,506)		
— Collectively assessed	(4,079,455)		
	(5,028,961)		
	125,254,681		

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 22 Loans and advances to customers (continued)

(b) Analysed by industry sector (continued)

	At December 31, 2016		
	Amount		Loans and advances secured by
	RMB'000	Percentage	collaterals RMB'000
<b>Gross loans and advances to customers</b>			
Corporate loans and advances			
– Wholesale and retail	14,972,665	13.88%	7,760,377
– Manufacturing	14,727,779	13.66%	6,812,690
– Agriculture, forestry, animal husbandry and fishery	14,226,347	13.19%	4,559,446
– Construction	9,248,944	8.58%	5,116,871
– Real estate	8,819,326	8.18%	6,883,576
– Mining	6,814,518	6.32%	1,639,851
– Water, environment and public facility management	3,797,131	3.52%	1,549,600
– Leasing and business services	3,278,800	3.04%	1,560,600
– Cultural, sports and entertainment	2,387,636	2.21%	2,121,300
– Transportation, storage and postal services	2,149,067	1.99%	1,162,687
– Electricity, gas and water production and supply	1,892,529	1.75%	964,112
– Education	1,120,555	1.04%	163,000
– Accommodation and catering	1,076,848	1.00%	805,673
– Health and social services	408,830	0.38%	11,500
– Resident and other services	199,230	0.18%	120,930
– Scientific research, technical services and geological prospecting	78,600	0.07%	49,600
– Information transmission, computer services and software	63,700	0.06%	18,050
– Public administration, social security and social organisations	8,500	0.01%	—
– Finance	600	0.00%	—
	85,271,605	79.06%	41,299,863

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

(b) Analysed by industry sector (continued)

	At December 31, 2016		
	Amount RMB'000	Percentage	Loans and advances secured by collaterals RMB'000
Personal loans and advances	7,901,880	7.33%	4,247,393
Discounted bills	14,681,595	13.61%	—
	107,855,080	100.00%	45,547,256
<b>Less: Provision for impairment losses</b>			
— Individually assessed	(709,990)		
— Collectively assessed	(3,045,965)		
	(3,755,955)		
	104,099,125		

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

#### (b) Analysed by industry sector (continued)

As at December 31, 2017 and 2016, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	At December 31, 2017				
	Impaired loans and advances RMB'000	Individually assessed provision for impairment losses RMB'000	Collectively assessed provision for impairment losses RMB'000	Impairment charged during the year RMB'000	Written-off during the year RMB'000
— Wholesale and retail	783,701	393,215	675,241	294,944	—
— Agriculture, forestry, animal husbandry and fishery	399,098	193,827	510,702	199,418	—
— Manufacturing	346,352	195,589	540,845	112,053	—
— Real estate	—	—	339,423	113,016	—

	At December 31, 2016				
	Impaired loans and advances RMB'000	Individually assessed provision for impairment losses RMB'000	Collectively assessed provision for impairment losses RMB'000	Impairment charged during the year RMB'000	Written-off during the year RMB'000
— Wholesale and retail	661,875	251,306	534,282	51,904	—
— Manufacturing	482,800	238,714	388,539	302,900	—
— Agriculture, forestry, animal husbandry and fishery	223,816	55,116	398,927	282,053	—

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

#### (c) Analysed by type of collateral

	2017	2016
	RMB'000	RMB'000
<b>Gross loans and advances to customers</b>		
Unsecured loans	<b>12,763,254</b>	11,288,735
Guaranteed loans	<b>50,146,555</b>	42,583,035
Collateralised loans	<b>58,395,907</b>	45,547,256
Pledged loans	<b>8,977,926</b>	8,436,054
	<b>130,283,642</b>	107,855,080
<b>Less: Provision for impairment losses</b>	<b>(5,028,961)</b>	(3,755,955)
	<b>125,254,681</b>	104,099,125

#### (d) Overdue loans analysed by overdue period

	At December 31, 2017				Total RMB'000
	Overdue within three months (inclusive) RMB'000	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	
Unsecured loans	38,555	8,766	9,149	11,066	67,536
Guaranteed loans	417,390	286,449	460,083	128,379	1,292,301
Collateralised loans	1,456,890	897,464	741,325	290,800	3,386,479
Pledged loans	129,286	328,499	145,485	17,150	620,419
	<b>2,042,121</b>	<b>1,521,178</b>	<b>1,356,042</b>	<b>447,395</b>	<b>5,366,735</b>
As a percentage of gross loans and advances to customers	<b>1.57%</b>	<b>1.17%</b>	<b>1.04%</b>	<b>0.34%</b>	<b>4.12%</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

#### (d) Overdue loans analysed by overdue period (continued)

	At December 31, 2016				Total RMB'000
	Overdue within three months (inclusive) RMB'000	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	
Unsecured loans	3,028	3,684	872	—	7,584
Guaranteed loans	152,459	494,548	209,866	27,821	884,694
Collateralised loans	218,340	645,857	323,886	6,358	1,194,441
Pledged loans	16,867	100,947	58,961	250	177,025
	390,694	1,245,036	593,585	34,429	2,263,744
As a percentage of gross loans and advances to customers	0.36%	1.15%	0.55%	0.03%	2.09%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses

	At December 31, 2017					Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Subtotal	Total	
	RMB'000	For which provision are collectively assessed	For which provision are individually assessed	RMB'000	RMB'000	
Gross loans and advances to customers	128,018,345	930,666	1,334,631	2,265,297	130,283,642	1.74%
Less: Provision for impairment losses	(3,519,527)	(559,928)	(949,506)	(1,509,434)	(5,028,961)	
	124,498,818	370,738	385,125	755,863	125,254,681	



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

#### (e) Loans and advances and provision for impairment losses (continued)

	At December 31, 2016					Gross impaired loans and advances as a percentage of gross loans and advances	
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))			Subtotal		Total
		For which provision are collectively assessed	For which provision are individually assessed				
		RMB'000	RMB'000	RMB'000			
Gross loans and advances to customers	105,906,204	699,815	1,249,061	1,948,876	107,855,080	1.81%	
Less: Provision for impairment losses	(2,629,381)	(416,584)	(709,990)	(1,126,574)	(3,755,955)		
	103,276,823	283,231	539,071	822,302	104,099,125		

Notes:

- (i) These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the individually assessment methods.
- (iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 49.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 22 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses

	Provision for loans and advances which are collectively assessed RMB'000	Provision for impaired loans and advances which are individually assessed RMB'000	Total RMB'000
At January 1, 2016	2,107,088	312,669	2,419,757
Impairment losses recognised			
Charge for the year	938,877	397,321	1,336,198
At December 31, 2016 and January 1, 2017	<b>3,045,965</b>	<b>709,990</b>	<b>3,755,955</b>
Impairment losses recognised			
Charge for the year	<b>1,033,490</b>	<b>239,516</b>	<b>1,273,006</b>
Reverse for the year	<b>(10,500)</b>	<b>—</b>	<b>(10,500)</b>
Recoveries of loans and advances previously written off	<b>1,022,990</b>	<b>239,516</b>	<b>1,262,506</b>
	<b>10,500</b>	<b>—</b>	<b>10,500</b>
At December 31, 2017	<b>4,079,455</b>	<b>949,506</b>	<b>5,028,961</b>

(g) Analysed by geographical sector

Geographically, the Group mainly conduct their businesses and all of their customers and assets are located in Gansu Province of the PRC.

(h) As at December 31, 2017 and 2016, part of the discounted bills were pledged as security for repurchase agreement as set out in Note 31(a).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 23 Available-for-sale financial assets

	2017	2016
	RMB'000	RMB'000
Available-for-sale debt investments (Note a)	13,047,235	6,189,558
Available-for-sale equity investment (Note b)	10,000	10,000
	<b>13,057,235</b>	<b>6,199,558</b>
Analysed as:		
Listed outside Hong Kong	7,716,739	3,011,221
Unlisted outside Hong Kong	5,340,496	3,188,337
	<b>13,057,235</b>	<b>6,199,558</b>

Notes:

(a)

	2017	2016
	RMB'000	RMB'000
Debt securities issued by the following institutions in Mainland China		
– Government	2,621,959	1,469,668
– Banks and other financial institutions	4,615,162	1,541,553
– Corporations	368,645	–
	<b>7,605,766</b>	<b>3,011,221</b>
Asset-backed securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	110,973	–
Trust plans	792,030	35,000
Asset management plans	3,510,178	2,642,358
Wealth management products issued by other financial institutions	730,157	104,555
Investment funds	298,131	396,424
	<b>13,047,235</b>	<b>6,189,558</b>

All available-for-sale debt investments were stated at fair value.

The above debt securities traded on the China Interbank Bond Market are included in "Listed outside Hong Kong".

As at December 31, 2017 and 2016, part of the available-for-sale financial assets was pledged for repurchase agreements. Details are set out in Note 31 (a).

(b) Available-for-sale equity investment

Available-for-sale unlisted equity investment which does not have any quoted market prices and whose fair value cannot be measured reliably is stated at cost less impairment losses, if any.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 24 Held-to-maturity investments

Analysed by type and location of issuers:

	2017	2016
	RMB'000	RMB'000
<b>Carrying value</b>		
Debt securities issued by the following institutions in Mainland China		
— Government	2,370,315	1,902,487
— Banks and other financial institutions	4,479,509	2,599,507
— Corporations	1,700,000	2,001,577
	<b>8,549,824</b>	6,503,571
Asset-backed securities issued by the following institutions in Mainland China:		
— Banks and other financial institutions	86,000	248,000
	<b>8,635,824</b>	6,751,571
Less: Provision for impairment losses	(19,860)	(22,476)
	<b>8,615,964</b>	6,729,095
Analysed as:		
Listed outside Hong Kong	8,529,964	6,729,095
Unlisted outside Hong Kong	86,000	—
	<b>8,615,964</b>	6,729,095
Fair value	<b>8,439,667</b>	6,821,969

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 24 Held-to-maturity investments (continued)

### Analysed by type and location of issuers: (continued)

- (a) Listed held-to-maturity investments are traded on the China Interbank Bond Market and are included in “Listed outside Hong Kong”.
- (b) As at December 31, 2017 and 2016, part of the held-to-maturity investments were pledged as security for repurchase agreement (Note 31(a)).
- (c) Movements of allowance for impairment losses

	Collective assessed allowance RMB'000
At January 1, 2016	18,705
Impairment losses recognised	3,771
At December 31, 2016 and January 1, 2017	<b>22,476</b>
Impairment losses reversed	<b>(2,616)</b>
At December 31, 2017	<b>19,860</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 25 Debt securities classified as receivables

	2017 RMB'000	2016 RMB'000
Debt securities issued by the following institutions in Mainland China:		
— Corporations	—	30,000
Trust plans	10,260,782	21,570,500
Asset management plans	33,556,159	53,926,932
Wealth management products issued by other financial institutions	6,492,000	—
	<b>50,308,941</b>	75,527,432
<b>Less: Provision for impairment losses</b>	<b>(2,126,315)</b>	(1,879,493)
	<b>48,182,626</b>	73,647,939
Analysed as:		
Unlisted outside Hong Kong	<b>48,182,626</b>	73,647,939

Notes:

- (i) The carrying value of debt securities classified as receivables approximates to their fair value.
- (ii) Trust plans, assets management plans and wealth management products issued by other financial institutions were purchased from trust companies, asset management companies and other financial institutions, with no active market quotes. At December 31, 2017, the definite period lengths are 3 months to 4 years, 2 months to 8 years and 1 month to 1 year, respectively (2016: 3 months to 5 years, 1 week to 5 years and nil).

### Movements of allowance for impairment losses

	Collective assessed allowance RMB'000
At January 1, 2016	717,549
Impairment losses recognised	1,161,944
At December 31, 2016 and January 1, 2017	<b>1,879,493</b>
Impairment losses recognised	<b>246,822</b>
At December 31, 2017	<b>2,126,315</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 26 Interest in an associate

	2017	2016
	RMB'000	RMB'000
Cost of investment in an associate, unlisted	3,000	3,000
Share of post-acquisition profits and other comprehensive income, net of dividends received	6,930	5,132
	<b>9,930</b>	8,132

As at December 31, 2017 and 2016, the Group had interests in the following associate:

Name of the bank	Form of entity	Country of establishment/ operation	Class of shares held	Proportion of ownerships interests or participating shares held by the Group		Proportion of voting power held		Principal activity
				2016	2017	2016	2017	
Gansu Jingchuan	Established	PRC	Ordinary share	16.67%	<b>16.67%</b>	16.67%	<b>16.67%</b>	Corporate and retail bank

Note: This associate is directly held by the Bank. The Group is able to exercise significant influence in deciding the financial and operating policies over Gansu Jingchuan because it has the power to appoint a director of that company under the provisions stated in the Article of Association of Gansu Jingchuan.

The financial information and carrying amount, in aggregate, of the Group's interest in an associate that is not material and is accounted for using the equity method are set out below:

	2017	2016
	RMB'000	RMB'000
The Group's share of profit and total comprehensive income for the year	1,798	1,877

	2017	2016
	RMB'000	RMB'000
Carrying amount of the Group's interests in the immaterial associate	9,930	8,132

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 27 Particulars of subsidiary

Name of subsidiary	Establishment date	Place of establishment/ operation	Registered and fully paid capital (RMB'000)		Proportion of ownership interest held by the Bank		Proportion of voting power held by the Bank		Principal activity
			At December 31, 2016	At December 31, 2017	At December 31, 2016	At December 31, 2017	At December 31, 2016	At December 31, 2017	
			Jianning Chengji Rural Bank	September 18, 2008	PRC	40,250	<b>40,250</b>	62.73%	

The subsidiary is directly held by the Bank and has no material non-controlling interests to the Group.

### 28 Property and equipment

	Construction in progress	Premises	Electronic equipment	Motor vehicles	Leasehold improvement	Computer software	Office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost								
At January 1, 2016	11,302	388,950	200,642	45,903	210,181	50,955	42,149	950,082
Additions	111,129	258,591	63,935	1,163	2,122	13,356	17,108	467,404
Transfers (out)/in of construction in progress	(61,254)	50,009	9,650	—	1,595	—	—	—
Transfer from deposits paid for acquisitions of premises	—	366,500	—	—	—	—	—	366,500
Disposals	—	—	—	(738)	—	—	—	(738)
At December 31, 2016 and January 1, 2017	<b>61,177</b>	<b>1,064,050</b>	<b>274,227</b>	<b>46,328</b>	<b>213,898</b>	<b>64,311</b>	<b>59,257</b>	<b>1,783,248</b>
Additions	<b>272,126</b>	<b>78</b>	<b>238,109</b>	<b>3,851</b>	<b>22,104</b>	<b>13,295</b>	<b>32,044</b>	<b>581,607</b>
Transfers (out)/in of construction in progress	<b>(12,865)</b>	<b>4,870</b>	<b>—</b>	<b>—</b>	<b>7,995</b>	<b>—</b>	<b>—</b>	<b>—</b>
Disposals	<b>—</b>	<b>(4,588)</b>	<b>(29,681)</b>	<b>(1,768)</b>	<b>—</b>	<b>(3,998)</b>	<b>(12,613)</b>	<b>(52,648)</b>
At December 31, 2017	<b>320,438</b>	<b>1,064,410</b>	<b>482,655</b>	<b>48,411</b>	<b>243,997</b>	<b>73,608</b>	<b>78,688</b>	<b>2,312,207</b>



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 28 Property and equipment (continued)

	Construction in progress RMB'000	Premises RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
Accumulated depreciation and impairment								
At January 1, 2016	—	75,370	59,608	21,262	27,260	17,066	16,012	216,578
Provided for the year	—	19,126	73,532	9,070	17,177	10,147	9,838	138,890
Eliminated on disposals	—	—	—	(489)	—	—	—	(489)
At December 31, 2016 and January 1, 2017	—	<b>94,496</b>	<b>133,140</b>	<b>29,843</b>	<b>44,437</b>	<b>27,213</b>	<b>25,850</b>	<b>354,979</b>
Provided for the year	—	<b>56,074</b>	<b>71,727</b>	<b>7,700</b>	<b>41,030</b>	<b>16,496</b>	<b>20,592</b>	<b>213,619</b>
Impairment loss recognised	—	<b>634</b>	—	—	—	—	—	<b>634</b>
Eliminated on disposals	—	<b>(3,299)</b>	<b>(3,320)</b>	<b>(1,135)</b>	—	<b>(1,001)</b>	<b>(1,110)</b>	<b>(9,865)</b>
At December 31, 2017	—	<b>147,905</b>	<b>201,547</b>	<b>36,408</b>	<b>85,467</b>	<b>42,708</b>	<b>45,332</b>	<b>559,367</b>
Carrying value								
At December 31, 2016	61,177	969,554	141,087	16,485	169,461	37,098	33,407	1,428,269
At December 31, 2017	<b>320,438</b>	<b>916,505</b>	<b>281,108</b>	<b>12,003</b>	<b>158,530</b>	<b>30,900</b>	<b>33,356</b>	<b>1,752,840</b>

At December 31, 2017, the carrying values of premises of which title deeds were not yet finalised by the Group were approximately RMB848,659,000 (2016: approximately RMB899,857,000). Among them, the carrying values of premises that the Group has obtained housing property title certificates issued by the authorities but no land use right certificates were approximately RMB66,182,000 (2016: approximately RMB78,009,000).

The aforementioned premises are located in PRC with medium term leases (10–50 years).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 29 Deferred tax assets

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2017	2016
	RMB'000	RMB'000
Deferred tax assets	<b>1,465,662</b>	1,213,251

The following are the major deferred tax assets/(liabilities) recognised and movements thereon in the year ended December 31, 2017 and 2016:

	Provision for impairment losses on assets	Net losses/ (gains) from fair value changes of financial instruments	Changes in fair value of available for sale financial assets	Salaries, bonuses and allowances payable	Others	Net balance of deferred tax assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note (i)	Note (ii)	Note (ii)			
At January 1, 2016	602,316	(138)	(14,271)	7,288	1,938	597,133
Credit/(charge) to profit or loss	566,378	2,588	—	25,236	(1,705)	592,497
Credit to other comprehensive income	—	—	23,318	303	—	23,621
At December 31, 2016 and January 1, 2017	<b>1,168,694</b>	<b>2,450</b>	<b>9,047</b>	<b>32,827</b>	<b>233</b>	<b>1,213,251</b>
Credit/(charge) to profit or loss	<b>232,633</b>	<b>(2,450)</b>	<b>—</b>	<b>(9,158)</b>	<b>(233)</b>	<b>220,792</b>
Credit/(charge) to other comprehensive income	—	—	<b>32,727</b>	<b>(1,108)</b>	—	<b>31,619</b>
At December 31, 2017	<b>1,401,327</b>	<b>—</b>	<b>41,774</b>	<b>22,561</b>	<b>—</b>	<b>1,465,662</b>

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets as at December 31, 2017 and 2016. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets as at December 31, 2017 and 2016, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 30 Other assets

	2017	2016
	RMB'000	RMB'000
Other receivables and prepayments (Note (i))	1,324,824	124,977
Clearance of inter-bank accounts	3,513	—
Repossessed assets (Note (ii))	—	98,050
Deposits paid for acquisitions of premises	204,264	115,229
Land use right (Note (iii))	28,946	31,824
Long term deferred expense (Note (iv))	11,058	2,885
Intangible assets (Note (v))	1,582	80
Other	200	311
	<b>1,574,387</b>	<b>373,356</b>

Notes:

(i)

	2017	2016
	RMB'000	RMB'000
Other receivables and prepayments	1,341,748	126,214
Less: Provision for impairment losses	(16,924)	(1,237)
	<b>1,324,824</b>	<b>124,977</b>

Movements of allowance for impairment loss:

	2017	2016
	RMB'000	RMB'000
At the beginning of the year	1,237	139
Impairment losses recognised	15,687	3,511
Impairment losses reversed	—	(1,077)
Amounts written off as uncollectible	—	(1,336)
	<b>16,924</b>	<b>1,237</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 30 Other assets (continued)

Notes: (continued)

(ii)

	2017 RMB'000	2016 RMB'000
Repossessed assets	—	140,072
Less: Provision for impairment losses	—	(42,022)
	—	98,050

Movements of allowance for impairment loss:

	2017 RMB'000	2016 RMB'000
At the beginning of the year	42,022	43,739
Amounts written off as uncollectible	—	(1,717)
Elimination on disposals	(42,022)	—
At the end of the year	—	42,022

(iii) Movements of land use rights:

	2017 RMB'000	2016 RMB'000
<b>Cost</b>		
At the beginning of the year	34,415	34,289
Additions	—	126
At the end of the year	34,415	34,415
<b>Accumulated amortisation</b>		
At the beginning of the year	2,591	1,732
Amortisation for the year	2,878	859
At the end of the year	5,469	2,591
<b>Carrying amounts</b>		
At the end of the year	28,946	31,824

These lands are located in the PRC with medium term leases (10–50 years).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 30 Other assets (continued)

Notes: (continued)

- (iv) Long-term deferred expenses represent prepaid rent and prepayments for services with average contract terms ranging from one year to five years and amortise at straight line basis over the contract period. Amortisation of long-term deferred expenses for the year ended 31 December 2017 was approximately RMB11,637,000 (2016: approximately RMB3,066,000)

Movements of long term deferred expense:

	2017 RMB'000	2016 RMB'000
At the beginning of the year	2,885	2,307
Additions	19,810	3,644
Amortisation for the year	(11,637)	(3,066)
At the end of the year	11,058	2,885

- (v) Movements of intangible assets:

	2017 RMB'000	2016 RMB'000
<b>Cost</b>		
At the beginning of the year	600	600
Additions	4,402	—
At the end of the year	5,002	600
<b>Accumulated amortisation</b>		
At the beginning of the year	520	400
Amortisation for the year	2,900	120
At the end of the year	3,420	520
<b>Carrying amounts</b>		
At the end of the year	1,582	80

These intangible assets mainly included trademark which are amortised over 1–5 years.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 31 Pledged assets

### (a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities or contingent liabilities mainly include discounted bills and debt securities, which are for repurchase agreements. The carrying amounts of the financial assets pledged as collaterals as at December 31, 2017 are approximately RMB13,502,112,000 (2016: approximately RMB4,521,536,000).

### (b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions.

## 32 Borrowings from the central bank

	2017	2016
	RMB'000	RMB'000
Borrowings	4,450,000	4,685,000
Re-discounted bills	840,410	1,007,924
	<b>5,290,410</b>	5,692,924

## 33 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	2017	2016
	RMB'000	RMB'000
Deposits from the following institutions operating in Mainland China		
— Banks	13,639,682	27,451,357
— Other financial institutions	6,189,315	8,081,278
	<b>19,828,997</b>	35,532,635
Deposits from the following institutions operating outside Mainland China		
— Banks	349,376	244,765
	<b>20,178,373</b>	35,777,400

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 34 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	2017	2016
	RMB'000	RMB'000
Placements from the following institutions operating in Mainland China		
– Banks	1,050,000	–

## 35 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	2017	2016
	RMB'000	RMB'000
In Mainland China		
– Banks	5,817,526	4,085,481
– Other financial institutions	–	495,000
	5,817,526	4,580,481

(b) Analysed by collateral

	2017	2016
	RMB'000	RMB'000
Debt securities	3,439,800	1,426,000
Discounted bills	2,377,726	3,154,481
	5,817,526	4,580,481

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 36 Deposits from customers

	2017	2016
	RMB'000	RMB'000
Demand deposits		
– Corporate customers	67,636,099	56,499,729
– Individual customers	22,077,280	20,115,254
	<b>89,713,379</b>	76,614,983
Time deposits		
– Corporate customers	14,793,171	20,603,352
– Individual customers	59,921,755	43,494,772
	<b>74,714,926</b>	64,098,124
Pledged deposits		
– Acceptances	15,462,321	16,108,835
– Guarantees and letters of guarantees	85,928	83,285
– Others	1,899,067	1,867,441
	<b>17,447,316</b>	18,059,561
Others	10,354,982	12,392,653
	<b>192,230,603</b>	171,165,321

### 37 Accrued staff costs

	2017	2016
	RMB'000	RMB'000
Salary and bonus payable	324,158	289,895
Social pension schemes payable	16,214	5,780
Other social insurances payable	19,646	9,895
Supplementary retirement benefits payable (Note (i))	27,230	29,390
Other long-term staff welfare payable (Note (ii))	11,230	13,610
	<b>398,478</b>	348,570



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 37 Accrued staff costs (continued)

Notes:

(i) Supplementary retirement benefits ("SRB"):

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period. The Group's obligations in respect of the SRB were assessed using projected unit credit actuarial cost method by an external independent actuary, Wills Towers Watson (a member of Society of Actuaries in America).

The balances of SRB of the Group are as follows:

	2017	2016
	RMB'000	RMB'000
Present value of SRB obligation	27,230	29,390

Movements of SRB of the Group are as follows:

	2017	2016
	RMB'000	RMB'000
At the beginning of the year	29,390	13,220
Service cost	2,200	14,630
Interest cost	1,060	490
Actuarial (gains)/losses	(4,430)	1,211
Payment made	(990)	(161)
At the end of the year	27,230	29,390

Principal actuarial assumptions of the Group are as follow:

	2017	2016
Discount rate	4.25%	3.50%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 37 Accrued staff costs (continued)

Notes: (continued)

(i) Supplementary retirement benefits ("SRB"): (continued)

Sensitivity analysis:

	Effect on SRB	
	2017	2016
	RMB'000	RMB'000
Discount rate (increase by 1%)	(410)	(491)
Discount rate (decrease by 1%)	574	700

Although the analysis does not take account of the full distribution of cash flows expected under the SRB, it does provide an approximation of the sensitivity of the assumptions shown.

(ii) Other long-term staff welfare payable

The Group pays compensation for termination benefits of eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period. The Group's obligations in respect of other long-term staff welfare payable were assessed using projected unit credit actuarial cost method by an external independent actuary (a member of Society of Actuaries in America) of Wills Towers Watson.

The balances of other long-term staff welfare payable of the Group are as follows:

	2017	2016
	RMB'000	RMB'000
Present value of other long-term staff welfare payable obligation	11,230	13,610

Movements of other long-term staff welfare payable of the Group are as follows:

	2017	2016
	RMB'000	RMB'000
At the beginning of the year	13,610	15,930
Service cost	860	260
Payment made	(3,240)	(2,580)
At the end of the year	11,230	13,610

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 37 Accrued staff costs (continued)

Notes: (continued)

(ii) Other long-term staff welfare payable (continued)

Principal actuarial assumptions of the Group are as follow:

	2017	2016
Discount rate	3.75%	2.75%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on long-term staff welfare payable	
	2017	2016
	RMB'000	RMB'000
Discount rate (increase by 1%)	(29)	(41)
Discount rate (decrease by 1%)	31	43

Although the analysis does not take account of the full distribution of cash flows expected under other long-term staff welfare payable, it does provide an approximation of the sensitivity of the assumptions shown.

## 38 Interests payable

	2017	2016
	RMB'000	RMB'000
Deposits from customers	3,844,738	2,121,086
Deposits from banks and other financial institutions	301,835	184,119
Deposits from central bank	4,347	—
Debts securities issued	141,099	9,390
Others	13,441	14,635
	<b>4,305,460</b>	<b>2,329,230</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 39 Debt securities issued

	2017	2016
	RMB'000	RMB'000
Fixed rates financial bonds (Note (i))	<b>4,496,189</b>	—
Fixed rate tier-two capital bonds issued (Note (ii))	<b>3,191,851</b>	3,189,349
Interbank deposits (Note (iii))	<b>16,272,719</b>	6,945,546
	<b>23,960,759</b>	10,134,895

Notes:

(i) Fixed rates financial bonds

- (a) Fixed rates financial bonds for "agriculture, rural, and farmers" (the first tranche) at a face value of RMB1,000,000,000 with a term of three years were issued on March 10, 2017. The coupon rate is 4.67%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.71%. As at December 31, 2017, the outstanding balance of this fixed rate financial bonds issued is approximately RMB998,692,000.
- (b) Fixed rate financial bonds at a face value of RMB1,000,000,000 with a term of five years were issued on April 19, 2017. The coupon rate is 5.00%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 5.02%. As at December 31, 2017, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,174,000.
- (c) Fixed rate green financial bonds at a face value of RMB1,000,000,000 with a term of three years were issued on May 23, 2017. The coupon rate is 4.90%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.94%. As at December 31, 2017, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,553,000.
- (d) Fixed rate financial bonds for the "three rurals" (the second tranche) at a face value of RMB1,500,000,000 with a term of three years were issued on August 10, 2017. The coupon rate is 4.85%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.94%. As at December 31, 2017, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,498,770,000.

(ii) Fixed rate tier-two capital bonds issued

Fixed rate tier-two capital bonds at a face value of RMB3,200,000,000 with a term of ten years were issued on December 11, 2015. The coupon rate is 5.10%. The Group has an option to redeem the debts on December 11, 2020 at the nominal amount. The effective interest rate per annum on the Group's tier-two capital bonds issued is 5.20%. As at December 31, 2017, the outstanding balance of this fixed rate tier-two capital bonds issued is approximately RMB3,191,851,000 (2016: approximately RMB3,189,349,000).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 39 Debt securities issued (continued)

Notes: (continued)

(iii) Interbank deposits

- (a) During the year ended December 31, 2017, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB44,980,000,000 and duration between 1 month to 1 year. As at December 31, 2017, the outstanding balance of interbank deposits issued is approximately RMB16,272,719,000. The ranges of effective interest rates per annum on the Group's interbank deposits issued are 3.10% to 5.42%.
- (b) During the year ended December 31, 2016, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB35,890,000,000 and duration between 1 month to 1 year. As at December 31, 2016, the outstanding balance of interbank deposits issued is approximately RMB6,945,546,000. The ranges of effective interest rates per annum on the Group's interbank deposits issued are 2.55% to 4.82%.

## 40 Other liabilities

	2017	2016
	RMB'000	RMB'000
Other payable and accrued expenses	<b>383,096</b>	321,236
Clearance of inter-bank accounts	<b>78,414</b>	148,245
Agency business liabilities	<b>34,038</b>	20,193
Dividend payable	<b>8,701</b>	8,997
Other tax payables	<b>106,364</b>	86,583
Fiscal Deposits	<b>74,991</b>	4,245
Others	<b>44,509</b>	2,401
	<b>730,113</b>	591,900

## 41 Share capital

Share capital of the Group as at December 31, 2017 represented share capital of the Bank, which is fully paid.

Share capital as at December 31, 2017 and 2016 are as follows:

	2017	2016
	RMB'000	RMB'000
Registered, issued and fully paid ordinary shares of RMB1 each:		
– Ordinary shares	<b>7,525,991</b>	7,525,991

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 42 Reserves

### (a) Capital reserve

	2017	2016
	RMB'000	RMB'000
Share premium	1,449,429	1,449,429
Shareholders' injection (Note)	317,676	315,200
Changes in ownership in a subsidiary without change in control	554	554
	<b>1,767,659</b>	1,765,183

Note: The promoters of the additional shares issued during the Bank's restructuring injected the Bank's net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Bank. Up to December 31, 2017, approximately RMB317,676,000 has been recorded as capital reserve (2016: approximately RMB315,200,000).

### (b) Surplus reserve

The surplus reserve at December 31, 2017 and 2016 represented statutory surplus reserve fund and other surplus reserve. The statutory surplus reserve fund of the Group as at December 31, 2017 were approximately RMB892,953,000 (2016: approximately RMB557,666,000), while other surplus reserve were approximately nil as at December 31, 2017 (2016: approximately RMB31,749,000).

The statutory surplus reserve fund of the Bank as at December 31, 2017 were approximately RMB892,953,000 (2016: approximately RMB525,917,000), while other surplus reserve were approximately nil as at December 31, 2017 (2016: approximately RMB31,749,000). The Bank and its subsidiary are required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

### (c) General reserve

With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Group is required, in principle, to set aside a general reserve not lower than 1.5% of the balance of its gross risk-bearing assets at each year end.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 43 Dividends

	2017 RMB'000	2016 RMB'000
2015 final dividend (Note)	—	602,079

Note:

Pursuant to the resolution of the shareholders meeting of 2015 on April 26, 2016, the Bank distributed cash dividends of RMB0.08 per share (tax included) based on number of approximately 7,525,991,000 shares held amounting to approximately RMB602,079,000 during the year ended December 31, 2016.

No dividend was paid or proposed during the year ended December 31, 2017, nor has any dividend been proposed since the end of the reporting period.

## 44 Structured entities

### (a) Consolidated structured entities

The consolidated structured entities of the Group mainly include principal-guaranteed wealth management products sponsored by the Bank. As at December 31, 2017, the amount of assets held by the consolidated principal-guaranteed wealth management products sponsored by the Bank amounted to approximately RMB625,800,000 (2016: approximately RMB697,169,000).

### (b) Unconsolidated structured entities

#### (i) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group hold interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include trust fund plans, asset management plans, wealth management products issued by other financial institutions and investment funds.

The following table set out an analysis of the gross carrying amounts of interest held by the Group as at December 31, 2017 and 2016:

	December 31, 2017			
	Available-for-sale financial assets RMB'000	Debt securities classified as receivables RMB'000	Carrying amount RMB'000	Maximum exposure RMB'000
Trust plans	792,030	9,904,719	10,689,249	10,689,249
Asset management plans	3,510,178	31,785,907	35,303,585	35,303,585
Wealth management products issued by other financial institutions	730,157	6,492,000	7,222,157	7,222,157
Investment funds	308,131	—	308,131	308,131
	5,340,496	48,182,626	53,523,122	53,523,122

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 44 Structured entities (continued)

### (b) Unconsolidated structured entities (continued)

#### (i) Structured entities sponsored by third party institutions in which the Group holds an interest (continued)

	December 31, 2016			
	Available-for-sale financial assets RMB'000	Debt securities classified as receivables RMB'000	Carrying amount RMB'000	Maximum exposure RMB'000
Trust plans	35,000	21,013,246	21,048,246	21,048,246
Asset management plans	2,642,358	52,605,293	55,247,651	55,247,651
Wealth management products issued by other financial institutions	104,555	—	104,555	104,555
Investment funds	396,424	—	396,424	396,424
	3,178,337	73,618,539	76,796,876	76,796,876

#### (ii) Structured entities sponsored by the Group which the Group do not consolidate but holds an interest in as at 31 December 2017 and 2016:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2017, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the consolidated statements of financial positions.

As at December 31, 2017, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are approximately RMB19,961,511,000 (2016: approximately RMB15,422,915,000).

#### (iii) Unconsolidated structured entities sponsored by the Group during the year which the Group do not have an interest in as at December 31, 2017 and 2016:

During the year ended December 31, 2017, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB16,423,345,000.

During the year ended December 31, 2016, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB22,235,738,000.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 45 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

Since January 1, 2013, the Group started computing its capital adequacy ratios in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP. During the year ended December 31, 2017 and 2016 the Group has complied with all its externally imposed capital requirements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 45 Capital management (continued)

The Group's capital adequacy ratios as at December 31, 2017 and 2016 calculated in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBRC are as follows:

	2017	2016
	RMB'000	RMB'000
<b>Total core tier-one capital</b>		
Share capital	7,525,991	7,525,991
Qualifying portion of capital reserve	1,767,659	1,765,183
Defined benefit plan reserve	(744)	(4,066)
Investment revaluation reserve	(125,323)	(27,141)
Surplus reserve	892,953	557,666
General reserve	3,631,670	3,226,100
Retained earnings	2,889,067	271,460
Qualifying portions of non-controlling interests	17,374	18,750
Core tier-one capital deductions (Note)	(32,482)	(54,084)
<b>Net core tier-one capital</b>	<b>16,566,165</b>	<b>13,279,859</b>
Eligible portion of non-controlling interests	2,316	1,738
<b>Net tier-one capital</b>	<b>16,568,481</b>	<b>13,281,597</b>
<b>Tier-two capital</b>		
Qualifying portion of tier-two capital instruments issued	3,191,851	3,189,349
Surplus provision for loan impairment	2,187,085	1,786,005
Eligible portion of non-controlling interests	4,633	3,961
<b>Net capital base</b>	<b>21,952,050</b>	<b>18,260,912</b>
Total risk weighted assets	190,251,575	154,753,875
Core tier-one capital adequacy ratio	8.71%	8.58%
Tier-one capital adequacy ratio	8.71%	8.58%
Capital adequacy ratio	11.54%	11.80%

Notes:

Core tier-one capital deductions primarily include other intangible assets excluding land use rights and deferred tax assets recognised for tax losses.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 46 Cash and cash equivalents

Cash and cash equivalents include the following balances with an original maturity of less than three months:

	2017	2016
	RMB'000	RMB'000
Cash on hand	492,372	519,973
Deposits with the central bank	3,521,880	3,056,920
Deposits with banks	3,386,710	21,477,038
Financial assets held under resale agreements	9,819,920	498,086
Total	17,220,882	25,552,017

## 47 Related parties relationships and transactions

### (a) Related parties

#### (i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	2017	2016
Gansu Province Highway Aviation Tourism Investment Group Co., Ltd.	15.38%	15.38%
Baoshang Bank Co., Ltd.	11.23%	11.23%
Jiuquan Iron & Steel (Group) Co., Ltd.	8.42%	8.42%
Gansu Province Electric Power Investment Group Co., Ltd.	8.42%	8.42%
Jinchuan Group Co., Ltd.	8.42%	8.42%

#### (ii) Other related parties

Other related parties can be individuals or enterprises, which include members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 47(a)(i) or their controlling shareholders. Transactions with other related parties were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 47 Related parties relationships and transactions (continued)

### (b) Transactions with related parties other than key management personnel

#### (i) Transactions between the Bank and subsidiary

The subsidiary of the Bank is its related parties. The transactions between the Bank and its subsidiary and among the subsidiary are eliminated on consolidation and therefore are not disclosed in this note.

#### (ii) Transactions between the Group and associate

	2017	2016
	RMB'000	RMB'000
Transaction during the year		
Interest income	347	947

	2017	2016
	RMB'000	RMB'000
Balances at end of the year		
Deposits with banks	—	61,963
Interests receivable	—	28

#### (iii) Transactions between the Group and major shareholders

	2017	2016
	RMB'000	RMB'000
Transactions during the year		
Interest income	38,958	34,172
Interest expense	157	803

	2017	2016
	RMB'000	RMB'000
Balances at end of the year		
Loans and advances to customers	600,000	1,820,000
Interests receivable	798	1,362
Deposits from customers	548,003	478,134
Deposits from banks and other financial institutions	770,000	—
Interests payable	237	30,082

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 47 Related parties relationships and transactions (continued)

### (b) Transactions with related parties other than key management personnel (continued)

#### (iv) Transactions between the Group and other related parties:

	2017	2016
	RMB'000	RMB'000
Transactions during the year		
Interest income	126,816	94,227
Interest expense	8,550	5,193
Balances at end of the year		
Loans and advances to customers	2,619,075	2,282,284
Interests receivables	4,043	2,637
Deposits from customers	687,316	2,591,499
Deposits from banks and other financial institutions	7,422	10,841
Interests payable	8,037	22,074

### (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, board of directors, the supervisory board and executive officers.

#### (i) Transactions between the Group and key management personnel

	2017	2016
	RMB'000	RMB'000
Transactions during the year		
Interest expense	589	640
Interest income	17	—

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 47 Related parties relationships and transactions (continued)

### (c) Key management personnel (continued)

#### (i) Transactions between the Group and key management personnel (continued)

	2017	2016
	RMB'000	RMB'000
Balances at end of the year		
Deposits from customers	4,705	2,421
Loan and advance to customer	465	—
Interests payable	20	1

#### (ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	2017	2016
	RMB'000	RMB'000
Fees	662	334
Salaries and allowances	3,773	2,837
Retirement benefits scheme contributions	713	545
Discretionary bonuses	4,551	2,712
	9,699	6,428

#### (d) Loans and advances to directors, supervisors and officers

During the year ended December 31, 2017, there is no loans and advances to directors, supervisors and officers of the Group (2016: nil).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 48 Segment reporting

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

### Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

### Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

### Financial market operations

This segment covers the Group's financial market operations. The financial market operations enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial market segment also covers management of the Group's overall liquidity position, including the issuance of debts.

### Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/(expense)".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and expenses are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, land use rights and other long-term assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 48 Segment reporting (continued)

### (a) Segment results, assets and liabilities

	Year ended December 31, 2017				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/(expense)	4,821,768	(1,492,356)	4,155,577	—	7,484,989
Internal net interest (expense)/income	(510,045)	2,490,297	(1,980,252)	—	—
Net interest income	4,311,723	997,941	2,175,325	—	7,484,989
Net fee and commission income	143,852	18,329	193,895	20,595	376,671
Net trading losses	—	—	(21,937)	—	(21,937)
Net gains arising from investment securities	—	—	116,992	—	116,992
Foreign exchange loss	—	—	—	(13,203)	(13,203)
Other operating income	—	—	—	109,033	109,033
Operating income	4,455,575	1,016,270	2,464,275	116,425	8,052,545
Operating expenses	(1,135,524)	(259,001)	(628,032)	(29,673)	(2,052,230)
Impairment losses on assets	(953,332)	(221,122)	(332,259)	(16,320)	(1,523,033)
Operating profit	2,366,719	536,147	1,503,984	70,432	4,477,282
Share of profits of associates	—	—	—	1,798	1,798
Profit before tax	2,366,719	536,147	1,503,984	72,230	4,479,080
Segment assets	95,401,308	14,576,563	159,634,750	69,334	269,681,955
Deferred tax assets	—	—	—	1,465,662	1,465,662
Total assets	95,401,308	14,576,563	159,634,750	1,534,996	271,147,617
Segment liabilities	111,026,341	85,934,437	57,087,564	477,535	254,525,877
Dividend payable	—	—	—	8,701	8,701
Total liabilities	111,026,341	85,934,437	57,087,564	486,236	254,534,578
Other segment information					
— Depreciation and amortisation	127,069	30,034	71,620	2,311	231,034
— Capital expenditure	322,305	76,182	181,663	5,859	586,009



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 48 Segment reporting (continued)

### (a) Segment results, assets and liabilities (continued)

	Year ended December 31, 2016				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/(expense)	4,481,634	(1,300,804)	3,489,387	—	6,670,217
Internal net interest (expense)/income	(541,726)	2,097,258	(1,555,532)	—	—
Net interest income	3,939,908	796,454	1,933,855	—	6,670,217
Net fee and commission income/(expense)	137,822	(29,354)	125,002	22,843	256,313
Net trading losses	—	—	(7,983)	—	(7,983)
Foreign exchange gains	—	—	—	9,867	9,867
Other operating income, net	—	—	—	42,499	42,499
Operating income	4,077,730	767,100	2,050,874	75,209	6,970,913
Operating expenses	(1,113,673)	(209,503)	(560,117)	(20,541)	(1,903,834)
Impairment losses on assets	(1,041,905)	(152,164)	(1,307,844)	(2,434)	(2,504,347)
Operating profit	1,922,152	405,433	182,913	52,234	2,562,732
Share of profits of associates	—	—	—	1,877	1,877
Profit before tax	1,922,152	405,433	182,913	54,111	2,564,609
Segment assets	84,146,645	7,788,170	151,711,042	197,249	243,843,106
Deferred tax assets	—	—	—	1,213,251	1,213,251
Total assets	84,146,645	7,788,170	151,711,042	1,410,500	245,056,357
Segment liabilities	108,647,076	65,830,577	56,886,747	339,316	231,703,716
Dividend payable	—	—	—	8,997	8,997
Total liabilities	108,647,076	65,830,577	56,886,747	348,313	231,712,713
Other segment information					
— Depreciation and amortisation	83,612	15,729	42,052	1,542	142,935
— Capital expenditure	273,488	51,448	137,549	5,045	467,530

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 48 Segment reporting (continued)

### (b) Geographical information

No geographical information is presented as most of the Group's operations are conducted in Gansu Province of the PRC and all non-current assets are located and therefore revenue is derived from activities in Gansu Province of the PRC.

### (c) Information about major customers

During the year ended December 31, 2017 and 2016, no operating income from a customer contributes over 10% of the total operating income of the Group.

## 49 Financial risk management

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

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

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

### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios.

#### **Credit business**

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The Group established a credit risk management structure which includes the president, chief officers and the risk management committee of the head office, persons-in-charge and risk officers of branches and sub-branches, credit approval committees or groups and the risk management, business, marketing and internal audit departments. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies and authorisation proposals for credit business. Legal and Compliance Department is responsible for formulating the authorisation proposals for credit business. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments such as the Corporate Business Department carry out credit businesses according to the Group's risk management policies and procedures.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (a) Credit risk (continued)

#### **Credit business (continued)**

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks. Customer relationship managers and risk managers work independently to manage the key risk points throughout the process of credit business.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to overdue loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (a) Credit risk (continued)

#### Credit business (continued)

The core definitions of the five categories of loans and advances are set out below:

**Normal:** Borrowers can honour the terms of their loans. There is no reason to doubt their disability to repay principal and interest in full on a timely basis.

**Special mention:** Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.

**Substandard:** Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.

**Doubtful:** Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.

**Loss:** Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

#### Financial Market Operations

The Group sets credit limits for financial market operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

#### (i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at December 31, 2017 and 2016.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (a) Credit risk (continued)

#### Financial Market Operations (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	At December 31, 2017				
	Loans and advances RMB'000	Deposits with banks RMB'000	Financial assets held under resale agreements RMB'000	Investments (*) RMB'000	Others (**) RMB'000
<b>Impaired</b>					
Individually assessed gross amount	1,334,630	—	—	200,000	—
Less: provision for impairment losses	(949,506)	—	—	(200,000)	—
	385,124	—	—	—	—
Collectively assessed gross amount	930,666	—	—	1,986,000	—
Less: provision for impairment losses	(559,928)	—	—	(19,860)	—
	370,738	—	—	1,966,140	—
<b>Overdue but not impaired</b>					
Gross amount					
– Less than three months (inclusive)	1,928,122	—	—	—	—
– Between three months and six months (inclusive)	457,464	—	—	—	—
– Between six months and one year (inclusive)	544,843	—	—	—	—
– More than one year	194,500	—	—	—	—
	3,124,929	—	—	—	—
Less: provision for impairment losses	(245,032)	—	—	—	—
	2,879,897	—	—	—	—
<b>Neither overdue nor impaired</b>					
Gross amount	124,893,417	30,811,728	9,819,920	70,065,636	2,610,341
Less: provision for impairment losses	(3,274,495)	—	—	(1,926,315)	(16,924)
	121,618,922	30,811,728	9,819,920	68,139,321	2,593,417
	125,254,681	30,811,728	9,819,920	70,105,461	2,593,417

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (a) Credit risk (continued)

#### Financial Market Operations (continued)

(ii) Financial assets analysed by credit quality are summarised as follows: (continued)

	At December 31, 2016				
	Loans and advances RMB'000	Deposits with banks RMB'000	Financial assets held under resale agreements RMB'000	Investments (*) RMB'000	Others (**) RMB'000
<b>Impaired</b>					
Individually assessed gross amount	1,249,061	—	—	4,500,000	—
Less: provision for impairment losses	(709,990)	—	—	(325,000)	—
	539,071	—	—	4,175,000	—
Collectively assessed gross amount	699,815	—	—	245,300	2,246
Less: provision for impairment losses	(416,584)	—	—	(130,750)	(1,052)
	283,231	—	—	114,550	1,194
<b>Overdue but not impaired</b>					
Gross amount					
— Less than three months (inclusive)	381,422	—	—	—	19,684
— Between three months and six months (inclusive)	53,750	—	—	—	—
— Between six months and one year (inclusive)	16,000	—	—	—	—
— More than one year	—	—	—	—	—
	451,172	—	—	—	19,684
Less: provision for impairment losses	(40,847)	—	—	—	(185)
	410,325	—	—	—	19,499
<b>Neither overdue nor impaired</b>					
Gross amount	105,455,032	24,571,875	498,086	84,262,864	773,237
Less: provision for impairment losses	(2,588,534)	—	—	(1,446,219)	—
	102,866,498	24,571,875	498,086	82,816,645	773,237
	104,099,125	24,571,875	498,086	87,106,195	793,930

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (a) Credit risk (continued)

#### Financial Market Operations (continued)

(ii) *Financial assets analysed by credit quality are summarised as follows: (continued)*

\* Investments comprise financial assets at fair value through profit or loss, available-for-sale debt investments, held-to-maturity investments and debt securities classified as receivables.

\*\* Others comprise interest receivable, other receivables and prepayments in other assets.

(iii) *Credit rating*

The Group adopts a credit rating approach in managing the credit risk of the listed debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at December 31 2017 and 2016 are as follows:

	2017	2016
	RMB'000	RMB'000
<b>Neither overdue nor impaired</b>		
Ratings		
— AAA to AAA+	2,378,016	3,991,572
— AA- to AA+	992,938	—
— A- to A+	719,572	—
— unrated (Note)	12,295,699	6,288,347
	<b>16,386,225</b>	10,279,919

Note: Debt securities held by the Group mainly issued by the Mainland China government and policy banks which are creditworthy issuers in the market, but not rated by independent rating agencies.

### (b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial market operations. The board assumes ultimate responsibility for management of market risk. The senior management implements market risk management strategies and policies as approved by the board of the Bank. The Group's business departments implement market risk management measures in their daily operations.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (b) Market risk (continued)

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on / off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

### Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

#### Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The planning and finance department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (b) Market risk (continued)

#### Interest rate risk (continued)

##### Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(i) *The following tables indicate the assets and liabilities as at December 31, 2017 and 2016 by the expected next repricing dates or by maturity dates, depending on which is earlier:*

	At December 31, 2017					
	Total RMB'000	Non- interest bearing RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000
<b>Assets</b>						
Cash and deposits with the central bank	29,084,415	492,372	28,592,043	—	—	—
Deposits with banks	30,811,728	—	12,409,928	18,401,800	—	—
Financial assets held under resale agreement	9,819,920	—	9,819,920	—	—	—
Interests receivable	1,268,593	1,268,593	—	—	—	—
Loans and advances to customers (Note (i))	125,254,681	2,001,005	55,350,847	52,337,043	13,952,718	1,613,068
Investments (Note (ii))	70,105,461	—	14,885,188	18,661,409	32,251,226	4,307,638
Others	4,802,819	4,802,819	—	—	—	—
	<b>271,147,617</b>	<b>8,564,789</b>	<b>121,057,926</b>	<b>89,400,252</b>	<b>46,203,944</b>	<b>5,920,706</b>
<b>Liabilities</b>						
Borrowing from the central bank	5,290,410	—	1,787,291	3,503,119	—	—
Deposits from banks and other financial institutions	20,178,373	—	8,236,473	11,341,900	600,000	—
Placements from banks and other financial institutions	1,050,000	—	1,000,000	—	50,000	—
Financial assets sold under repurchase agreements	5,817,526	—	5,817,526	—	—	—
Deposits from customers	192,230,603	—	106,737,790	29,377,220	56,115,593	—
Interests payable	4,305,460	4,305,460	—	—	—	—
Debt securities issued	23,960,759	—	4,991,572	11,281,147	6,696,189	991,851
Others	1,701,447	1,701,447	—	—	—	—
	<b>254,534,578</b>	<b>6,006,907</b>	<b>128,570,652</b>	<b>55,503,386</b>	<b>63,461,782</b>	<b>991,851</b>
<b>Asset-liability gap</b>	<b>16,613,039</b>	<b>2,557,882</b>	<b>(7,512,726)</b>	<b>33,896,866</b>	<b>(17,257,838)</b>	<b>4,928,855</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (b) Market risk (continued)

#### Interest rate risk (continued)

##### Trading interest rate risk (continued)

(i) The following tables indicate the assets and liabilities as at December 31, 2017 and 2016 by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

	Total RMB'000	Non-interest bearing RMB'000	At December 31, 2016			
			Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000
<b>Assets</b>						
Cash and deposits with the central bank	25,079,115	519,973	24,559,142	—	—	—
Deposits with banks	24,571,875	—	22,036,698	2,535,177	—	—
Financial assets held under resale agreement	498,086	—	498,086	—	—	—
Interests receivable	668,953	668,953	—	—	—	—
Loans and advances to customers (Note (i))	104,099,125	—	29,112,930	65,654,734	8,268,549	1,062,912
Investments (Note (ii))	87,116,195	—	16,658,360	29,119,196	35,368,765	5,969,874
Others	3,023,008	3,023,008	—	—	—	—
	245,056,357	4,211,934	92,865,216	97,309,107	43,637,314	7,032,786
<b>Liabilities</b>						
Borrowing from the central bank	5,692,924	—	2,267,924	3,425,000	—	—
Deposits from banks and other financial institutions	35,777,400	—	15,009,963	18,437,437	2,330,000	—
Financial assets sold under repurchase agreements	4,580,481	—	4,520,481	60,000	—	—
Deposits from customers	171,165,321	—	101,353,348	24,362,092	45,313,248	136,633
Interests payable	2,329,230	2,329,230	—	—	—	—
Debt securities issued	10,134,895	—	3,375,614	3,569,932	—	3,189,349
Others	2,032,462	2,032,462	—	—	—	—
	231,712,713	4,361,692	126,527,330	49,854,461	47,643,248	3,325,982
<b>Asset-liability gap</b>	13,343,644	(149,758)	(33,662,114)	47,454,646	(4,005,934)	3,706,804

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (b) Market risk (continued)

#### Interest rate risk (continued)

##### Trading interest rate risk (continued)

Notes:

- (1) As at December 31, 2017, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of approximately RMB370,347,000 (2016: approximately RMB839,190,000).
- (2) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

#### (ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity.

The following tables demonstrate the sensitivity as at December 31, 2017 and 2016, assuming other variables remain unchanged, an increase in estimated interest rate, of the Group's net profit and equity.

	Effect on net profit	
	2017	2016
	RMB'000	RMB'000
<b>Change in basis points</b>		
Increase 100 basis points	174,652	(182,472)
Decrease 100 basis points	(174,652)	182,472
	Effect on equity	
	2017	2016
	RMB'000	RMB'000
<b>Change in basis points</b>		
Increase 100 basis points	371,636	82,589
Decrease 100 basis points	(371,636)	(82,589)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (b) Market risk (continued)

#### Interest rate risk (continued)

##### Trading interest rate risk (continued)

##### (ii) Interest rate sensitivity analysis (continued)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at December 31, 2017 and 2016 apply to non-derivative financial instruments of the Group.
- At December 31, 2017 and 2016, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months.
- There is a parallel shift in the yield curve with the changes in interest rates.
- There are no other changes to the assets and liabilities portfolio.
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

#### Foreign currency risk

The Group's foreign currency risk mainly arises from exchange rate fluctuation on its foreign exchange exposures. The Group manages foreign currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies and monitoring its foreign currency exposures on daily basis.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (b) Market risk (continued)

#### Foreign currency risk (continued)

The Group's currency exposures as at December 31, 2017 and 2016 are as follows:

	At December 31, 2017			
	RMB'000	USD (RMB'000 equivalent)	Others (RMB'000 equivalent)	Total (RMB'000 equivalent)
<b>Assets</b>				
Cash and deposits with the central bank	29,084,380	3	32	29,084,415
Deposits with banks	30,351,756	204,711	255,261	30,811,728
Financial assets held under resale agreements	9,819,920	—	—	9,819,920
Financial assets at fair value through profit or loss	249,636	—	—	249,636
Interests receivables	1,268,076	479	38	1,268,593
Loans and advances to customers	125,254,498	183	—	125,254,681
Available-for-sale financial assets	13,057,235	—	—	13,057,235
Held-to-maturity assets	8,615,964	—	—	8,615,964
Debt securities classified as receivables	48,182,626	—	—	48,182,626
Others	4,802,819	—	—	4,802,819
	270,686,910	205,376	255,331	271,147,617
<b>Liabilities</b>				
Borrowing from the central bank	5,290,410	—	—	5,290,410
Deposits from banks and other financial institutions	20,107,507	2,667	68,199	20,178,373
Financial assets sold under repurchase agreements	5,817,526	—	—	5,817,526
Placements from banks and other financial institutions	1,050,000	—	—	1,050,000
Deposits from customers	192,226,246	4,355	2	192,230,603
Interests payable	4,305,460	—	—	4,305,460
Debt securities issued	23,960,759	—	—	23,960,759
Others	1,701,447	—	—	1,701,447
	254,459,355	7,022	68,201	254,534,578
<b>Net position</b>	16,227,555	198,354	187,130	16,613,039
<b>Off-balance sheet credit commitments</b>	29,892,393	—	578	29,892,971

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (b) Market risk (continued)

#### Foreign currency risk (continued)

The Group's currency exposures as at December 31, 2017 and 2016 are as follows: (continued)

	RMB'000	At December 31, 2016		Total (RMB'000 equivalent)
		USD (RMB'000 equivalent)	Others (RMB'000 equivalent)	
<b>Assets</b>				
Cash and deposits with the central bank	25,079,080	2	33	25,079,115
Deposits with banks	24,438,779	117,706	15,390	24,571,875
Financial assets held under resale agreements	498,086	—	—	498,086
Financial assets at fair value through profit or loss	539,603	—	—	539,603
Interest receivable	668,505	448	—	668,953
Loans and advances to customers	104,099,125	—	—	104,099,125
Available-for-sale financial assets	6,199,558	—	—	6,199,558
Held-to-maturity assets	6,729,095	—	—	6,729,095
Debt securities classified as receivables	73,647,939	—	—	73,647,939
Others	3,023,008	—	—	3,023,008
	244,922,778	118,156	15,423	245,056,357
<b>Liabilities</b>				
Borrowing from the central bank	5,692,924	—	—	5,692,924
Deposits from banks and other financial institutions	35,762,787	—	14,613	35,777,400
Financial assets sold under repurchase agreements	4,580,481	—	—	4,580,481
Deposits from customers	171,165,321	—	—	171,165,321
Interests payable	2,329,230	—	—	2,329,230
Debt securities issued	10,134,895	—	—	10,134,895
Others	2,032,462	—	—	2,032,462
	231,698,100	—	14,613	231,712,713
<b>Net position</b>	13,224,678	118,156	810	13,343,644
<b>Off-balance sheet credit commitments</b>	31,824,280	—	—	31,824,280

As the net position of the Group's foreign currency is immaterial, the foreign currency risk is immaterial.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (c) Liquidity Risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The planning and finance department is responsible for the development of liquidity risk management strategies, policies, procedures and limits, and routine supervision and monitoring of liquidity risks. It establishes and implements internal control systems relating to liquidity risk management, such as Liquidity Risk Management Measures (流動性風險管理辦法) and Contingency Plan for Liquidity Risks (流動性風險應急預案). The planning and finance department is also responsible for setting annual liquidity management objectives and liquidity management profile plans. It also monitors and adjusts these plans on a quarterly basis in order to maintain a reasonable assets and liabilities structure.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (c) Liquidity Risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at December 31, 2017 and 2016:

	At December 31, 2017							Total RMB'000
	Indefinite (Note) RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between	Between	More than five years RMB'000		
				three	one year			
				months and one year RMB'000	and five years RMB'000			
<b>Assets</b>								
Cash and deposits with the central bank	25,070,164	4,014,251	—	—	—	—	29,084,415	
Deposits with banks	—	3,121,780	9,288,148	18,401,800	—	—	30,811,728	
Financial assets held under resale agreements	—	—	9,819,920	—	—	—	9,819,920	
Financial assets at fair value through profit or loss	—	—	249,636	—	—	—	249,636	
Interests receivables	—	—	621,592	579,510	67,489	2	1,268,593	
Loans and advances to customers	1,630,657	370,347	18,326,795	61,298,093	33,056,263	10,572,526	125,254,681	
Available-for-sale financial assets	—	—	1,811,400	5,255,339	4,255,033	1,735,463	13,057,235	
Held-to-maturity investments	—	—	85,140	597,929	7,264,895	668,000	8,615,964	
Debt securities classified as receivables	—	—	12,861,867	13,288,461	20,111,548	1,920,750	48,182,626	
Others	3,535,849	—	—	—	1,266,970	—	4,802,819	
	30,236,670	7,506,378	53,064,498	99,421,132	66,022,198	14,896,741	271,147,617	
<b>Liabilities</b>								
Borrowing from the central bank	—	—	1,787,291	3,503,119	—	—	5,290,410	
Deposits from banks	—	531,473	7,705,000	11,341,900	600,000	—	20,178,373	
Placements from banks and other financial institutions	—	—	1,000,000	—	50,000	—	1,050,000	
Financial assets sold under repurchase agreements	—	—	5,817,526	—	—	—	5,817,526	
Deposits from customers	—	92,713,839	14,023,951	29,377,220	56,115,593	—	192,230,603	
Interests payable	—	3,684,093	167,848	312,419	141,100	—	4,305,460	
Debt securities issued	—	—	4,991,572	11,281,147	6,696,189	991,851	23,960,759	
Others	—	623,749	1,077,698	—	—	—	1,701,447	
	—	97,553,154	36,570,886	55,815,805	63,602,882	991,851	254,534,578	
<b>Long/(short) position</b>	30,236,670	(90,046,776)	16,370,757	43,125,006	3,039,067	13,888,315	16,613,039	



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (c) Liquidity Risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at December 31, 2017 and 2016: (continued)

	At December 31, 2016						
	Indefinite (Note) RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between	Between	More than five years RMB'000	Total RMB'000
				three months and one year RMB'000	one year and five years RMB'000		
<b>Assets</b>							
Cash and deposits with the central bank	21,502,222	3,576,893	—	—	—	—	25,079,115
Deposits with banks	—	8,370,218	13,666,480	2,535,177	—	—	24,571,875
Financial assets held under resale agreements	—	—	498,086	—	—	—	498,086
Financial assets at fair value through profit or loss	—	—	—	—	539,603	—	539,603
Interests receivables	—	15,303	372,256	281,021	372	1	668,953
Loans and advances to customers	872,590	106,960	21,116,526	43,568,700	32,861,442	5,572,907	104,099,125
Available-for-sale financial assets	827,497	—	994,803	796,901	1,679,334	1,901,023	6,199,558
Held-to-maturity investments	—	—	330,436	1,231,012	4,771,131	396,516	6,729,095
Debt securities classified as receivables	—	100,000	15,233,120	27,091,283	28,283,536	2,940,000	73,647,939
Others	2,965,324	111	—	—	57,573	—	3,023,008
	26,167,633	12,169,485	52,211,707	75,504,094	68,192,991	10,810,447	245,056,357
<b>Liabilities</b>							
Borrowing from the central bank	—	—	2,267,924	3,425,000	—	—	5,692,924
Deposits from banks and other financial institutions	—	521,963	14,488,000	18,437,437	2,330,000	—	35,777,400
Financial assets sold under repurchase agreements	—	—	4,520,481	60,000	—	—	4,580,481
Deposits from customers	—	80,013,780	21,339,567	24,362,093	45,313,248	136,633	171,165,321
Interests payable	—	2,121,130	105,688	102,412	—	—	2,329,230
Debt securities issued	—	—	3,375,614	3,569,932	—	3,189,349	10,134,895
Others	—	505,317	1,409,452	88,303	—	29,390	2,032,462
	—	83,162,190	47,506,726	50,045,177	47,643,248	3,355,372	231,712,713
<b>Long/(short) position</b>	26,167,633	(70,992,705)	4,704,981	25,458,917	20,549,743	7,455,075	13,343,644

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (c) Liquidity Risk (continued)

Note: Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

	At December 31, 2017						
	Carrying amount RMB'000	Contractual undiscounted cash flow RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years and indefinite RMB'000
<b>Non-derivative financial liabilities</b>							
Borrowings from the central bank	5,290,410	5,300,019	—	1,795,931	3,504,088	—	—
Deposits from banks	20,178,373	27,659,503	531,473	8,925,717	17,586,092	616,221	—
Placements from bank and other financial institutions	1,050,000	1,061,395	—	1,004,856	1,789	54,750	—
Financial assets sold under repurchase agreements	5,817,526	5,832,132	—	5,832,132	—	—	—
Deposits from customers	192,230,603	198,435,602	92,711,422	13,206,984	24,370,888	68,146,308	—
Debt securities issued	23,960,759	24,101,858	—	4,991,572	11,281,147	6,837,288	991,851
Other financial liabilities	1,701,446	1,701,446	623,748	1,077,698	—	—	—
	<b>250,229,117</b>	<b>264,091,955</b>	<b>93,866,643</b>	<b>36,834,890</b>	<b>56,744,004</b>	<b>75,654,567</b>	<b>991,851</b>
Off-balance sheet credit commitments	—	29,892,971	—	8,776,564	20,767,034	64,559	284,814

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (c) Liquidity Risk (continued)

	At December 31, 2016						
	Carrying amount	Contractual	Repayable on demand	Less than	Between	Between	More
		undiscounted cash flow		three	three	one year	than five
		RMB'000		months and	months	and	years and
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Non-derivative financial liabilities</b>							
Borrowings from the central bank	5,692,924	5,755,567	—	2,301,042	3,454,525	—	—
Deposits from banks	35,777,400	36,757,744	521,963	14,766,858	19,069,684	2,399,239	—
Financial assets sold under repurchase agreements	4,580,481	4,582,308	—	4,522,308	60,000	—	—
Deposits from customers	171,165,321	180,632,358	80,024,654	21,455,914	24,671,774	54,313,294	166,722
Debt securities issued	10,134,895	12,554,000	—	3,400,000	3,906,000	1,024,000	4,224,000
Other financial liabilities	2,032,462	2,032,462	505,317	1,409,452	88,303	—	29,390
	229,383,483	242,314,439	81,051,934	47,855,574	51,250,286	57,736,533	4,420,112
Off-balance sheet credit commitments	—	31,824,280	349,807	11,351,823	20,112,179	10,471	—

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, settlement, intermediary business and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 49 Financial risk management (continued)

### (d) Operational risk (continued)

- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

## 50 Fair value of financial instruments

### (a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

#### (i) Debt securities

Fair values of debt securities investments 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 policy models or discounted cash flows.

#### (ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at December 31, 2017 and 2016.

#### (iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on the present value of estimated future cash flows at December 31, 2017 and 2016. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at December 31, 2017 and 2016.

### (b) Fair value measurement

#### (i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 50 Fair value of financial instruments (continued)

### (b) Fair value measurement (continued)

#### (i) Financial assets (continued)

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and financial assets at fair value through profit or loss are stated at fair value.

The carrying amount and fair value of held-to-maturity investments and debt securities classified as receivables are disclosed in Note 24 and 25.

#### (ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, deposits from customers and debts securities issued.

### (c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the consolidated statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. These three types of inputs have created the following fair value hierarchy:

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3:	Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 50 Fair value of financial instruments (continued)

#### (c) Fair value hierarchy (continued)

	At December 31, 2017			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>				
Financial assets at FVTPL				
— debt securities held for trading	—	249,636	—	249,636
Available-for-sale financial assets				
— debt securities	—	7,605,766	—	7,605,766
— asset-backed securities	—	110,973	—	110,973
— trust plans	—	792,030	—	792,030
— asset management plans	—	3,510,178	—	3,510,178
— wealth management products issued by other financial institutions	—	730,157	—	730,157
— investment funds	—	298,131	—	298,131
	—	13,296,871	—	13,296,871
<b>Assets</b>				
Financial assets at FVTPL				
— debt securities held for trading	—	539,603	—	539,603
Available-for-sale financial assets				
— debt securities	—	3,011,221	—	3,011,221
— trust plans	—	35,000	—	35,000
— asset management plans	—	2,642,358	—	2,642,358
— wealth management products issued by other financial institutions	—	104,555	—	104,555
— investment funds	—	396,424	—	396,424
	—	6,729,161	—	6,729,161

During the year ended December 31, 2017, there were no significant transfers among each level (2016: nil).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 50 Fair value of financial instruments (continued)

### (c) Fair value hierarchy (continued)

- (i) The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Bank include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.
- (ii) The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	December 31, 2017	2016		
<b>Financial assets at fair value through profit or loss</b>				
Debt securities — listed	<b>249,636</b>	539,603	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model
<b>Available-for-sale financial assets</b>				
Debt securities — listed	<b>7,605,766</b>	3,011,221	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model
Asset-back securities — listed	<b>110,973</b>	—	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model
Trust plans	<b>792,030</b>	35,000	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Asset management plans	<b>3,510,178</b>	2,642,358	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

### 50 Fair value of financial instruments (continued)

#### (c) Fair value hierarchy (continued)

- (ii) The valuation techniques and input used in the fair value measurements of financial instruments as set out below:  
(continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	December 31, 2017	2016		
Wealth management products issued by other financial institutions	<b>730,157</b>	104,555	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Investment funds	<b>298,131</b>	396,424	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses

### 51 Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the consolidated statements of financial position. Surplus funding is accounted for as deposits from customers.

	2017	2016
	RMB'000	RMB'000
Entrusted loans	<b>3,462,418</b>	7,416,849
Entrusted funds	<b>3,462,418</b>	7,416,849



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 52 Commitments

### (a) Credit commitments

The Group's credit commitments take the form of bank acceptances, letters of credit and financial guarantees.

The Group provides financial guarantees to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	2017	2016
	RMB'000	RMB'000
Loan commitments	24,000	—
Acceptances	29,352,762	31,392,837
Letters of guarantees	516,209	431,443
	<b>29,892,971</b>	31,824,280

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

### (b) Operating lease commitments

As at December 31, 2017 and 2016, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

#### The Group as lessee

	2017	2016
	RMB'000	RMB'000
Within one year	150,123	148,511
In the second to fifth years inclusive	198,409	258,832
Over five years	24,415	39,961
	<b>372,947</b>	447,304

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 52 Commitments (continued)

### (C) Capital commitments

At December 31, 2017 and 2016, the Group's authorised capital commitments are as follows:

#### The Group

	2017	2016
	RMB'000	RMB'000
Purchase of property and equipment		
— Contracted for but not provided	298,819	142,487

## 53 Contingent liabilities

The Bank and its subsidiary are involved as defendants in certain lawsuits arising from their normal business operations. As at December 31, 2017, in light of court decisions or advice from legal counsels, the directors of the Bank considered it not necessary to provide for potential losses from these claims. The directors of the Bank believe, based on legal advices, the final result of the lawsuits will not have any material impact on the financial position or operations of the Group.

## 54 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Non-cash change			December 31, 2017
	January 1, 2017	Financing cash flows	Finance cost incurred	
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Liabilities</b>				
Debt securities issued (Note 39)	10,134,895	13,182,356	643,508	23,960,759
Interests payable on debt securities issued (Note 38)	9,390	(170,775)	302,484	141,099
Dividend payable (Note 40)	8,997	(296)	—	8,701
	10,153,282	13,011,285	945,992	24,110,559

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 55 Statements of financial position of the Bank

	Note	2017 RMB'000	2016 RMB'000
<b>Assets</b>			
Cash and deposits with the central bank		28,915,911	24,928,991
Deposits with banks		30,681,679	24,542,946
Financial assets held under resale agreements		9,819,920	498,086
Financial assets at fair value through profit or loss		249,636	539,603
Interests receivables		1,266,798	667,179
Loans and advances to customers		124,638,088	103,471,918
Available-for-sale financial assets		13,057,235	6,199,558
Held-to-maturity investments		8,615,964	6,729,095
Debt securities classified as receivables		48,182,626	73,647,939
Interest in an associate		9,930	8,132
Investment in a subsidiary	(i)	29,250	29,250
Property and equipment		1,742,714	1,417,700
Deferred tax assets		1,962,350	1,210,823
Other assets		1,569,106	370,592
<b>Total assets</b>		<b>270,241,207</b>	<b>244,261,812</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 55 Statements of financial position of the Bank (continued)

	Note	2017 RMB'000	2016 RMB'000
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Borrowings from the central bank		5,140,410	5,632,924
Deposits from banks and other financial institutions		20,564,712	35,843,069
Placements from banks and other financial institutions		1,050,000	—
Financial assets sold under repurchase agreements		5,817,526	4,580,481
Deposits from customers		191,162,096	170,429,234
Accrued staff costs		396,585	345,130
Taxes payable		568,992	1,088,445
Interests payable		4,295,527	2,322,677
Debts securities issued		23,960,759	10,134,895
Other liabilities		727,854	588,706
<b>Total liabilities</b>		<b>253,684,461</b>	<b>230,965,561</b>
<b>Equity</b>			
Share capital		7,525,991	7,525,991
Capital reserve	(ii)	1,767,105	1,764,629
Defined benefit plan reserve	(ii)	(744)	(4,066)
Investment revaluation reserve	(ii)	(125,323)	(27,141)
Surplus reserve	(ii)	892,953	557,666
General reserve	(ii)	3,614,058	3,213,847
Retained earnings	(ii)	2,882,706	265,325
<b>Total equity</b>		<b>16,556,746</b>	<b>13,296,251</b>
<b>Total liabilities and equity</b>		<b>270,241,207</b>	<b>244,261,812</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 55 Statements of financial position of the Bank (continued)

Notes:

(i) Investment in a subsidiary

Name of subsidiary	Establishment date	Place of establishment/ operation	Registered and fully paid capital (RMB'000)		Proportion of ownership interest held by the Bank		Proportion of voting power held by the Bank		Principal activity
			At December 31,		At December 31,		At December 31,		
			2016	2017	2016	2017	2016	2017	
Jianning Chengji Rural Bank	September 18, 2008	PRC	40,250	<b>40,250</b>	62.73%	<b>62.73%</b>	62.73%	<b>62.73%</b>	Corporate and retail banking

The subsidiary is directly held by the Bank and has no material non-controlling interests to the Group.

(ii) Reserve of the Bank

	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	<b>1,762,783</b>	<b>(3,158)</b>	<b>42,812</b>	<b>366,496</b>	<b>1,886,172</b>	<b>474,550</b>	<b>4,529,655</b>
Profit for the year	—	—	—	—	—	<b>1,911,699</b>	<b>1,911,699</b>
Other comprehensive expenses for the year	—	<b>(908)</b>	<b>(69,953)</b>	—	—	—	<b>(70,861)</b>
Total comprehensive (expenses)/income for the year	—	<b>(908)</b>	<b>(69,953)</b>	—	—	<b>1,911,699</b>	<b>1,840,838</b>
Shareholders' injection (Note 42)	<b>1,846</b>	—	—	—	—	—	<b>1,846</b>
Appropriation of profits							
— Appropriation to surplus reserve	—	—	—	<b>191,170</b>	—	<b>(191,170)</b>	—
— Appropriation to general reserve	—	—	—	—	<b>1,327,675</b>	<b>(1,327,675)</b>	—
— Dividends paid	—	—	—	—	—	<b>(602,079)</b>	<b>(602,079)</b>
At December 31, 2016	<b>1,764,629</b>	<b>(4,066)</b>	<b>(27,141)</b>	<b>557,666</b>	<b>3,213,847</b>	<b>265,325</b>	<b>5,770,260</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

## 55 Statements of financial position of the Bank (continued)

Notes: (continued)

(ii) Reserve of the Bank (continued)

	Capital reserve RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2017	1,764,629	(4,066)	(27,141)	557,665	3,213,847	265,325	5,770,259
Profit for the year	—	—	—	—	—	3,352,879	3,352,879
Other comprehensive income/ (expenses) for the year	—	3,322	(98,182)	—	—	—	(94,860)
Total comprehensive income/(expenses) for the year	—	3,322	(98,182)	—	—	3,352,879	3,258,019
Shareholders' injection (Note 42)	2,476	—	—	—	—	—	2,476
Appropriation of profits							
— Appropriation to surplus reserve	—	—	—	335,287	—	(335,287)	—
— Appropriation to general reserve	—	—	—	—	400,211	(400,211)	—
At December 31, 2017	1,767,105	(744)	(125,323)	892,953	3,614,058	2,882,706	9,030,755

## 56 Event after the reporting period

- (i) On January 18, 2018, the Bank's H shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 2139). The total number of H shares issued globally was 2,212,000,000. The offer price was HK\$2.69 per share, each share at the par value of RMB1.00.
- (ii) On February 5, 2018, CMB International Capital Limited, CCB International Capital Limited, Hutai Financial Holdings (Hong Kong) Limited, Guotai Junan Securities (Hong Kong) Limited and BOCI Asia Limited exercised all over-allotment option for themselves and on behalf of the international underwriters. The total number of H shares issued was 331,800,000. The offer price was HK\$2.69 per share, each share at the par value of RMB1.00. Details of over-allotment were set out in announcement of the Bank dated February 6, 2018.

# Chapter 12 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

The information contained below does not constitute a part of the consolidated financial statements and the relevant information is for reference only.

## 1 Liquidity coverage ratio and leverage ratio (%)

	At December 31, 2017	Average for the year ended December 31, 2017
Liquidity coverage ratio (RMB and foreign currency)	<b>159.47%</b>	<b>162.77%</b>

	At December 31, 2016	Average for the year ended December 31, 2016
Liquidity coverage ratio (RMB and foreign currency)	169.55% <sup>(1)</sup>	155.94% <sup>(1)</sup>

### Leverage Ratio

	At December 31, 2017
Leverage Ratio	<b>5.50%</b>

Note:

(1) According to the CBRC's requirement, liquidity coverage ratio applies to commercial banks with total assets more than RMB200,000 million.

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the CBRC and effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

## Chapter 12 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

### 2 Currency concentrations

	At December 31, 2017		
	USD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	205,376	255,331	460,707
Spot liabilities	(7,022)	(68,201)	(75,223)
Net position	198,354	187,130	385,484

	At December 31, 2016		
	USD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	118,156	15,423	133,579
Spot liabilities	—	14,613	14,613
Net position	118,156	810	118,966

The above information is computed in accordance with the provisions of the CBRC. The Group has no structural position as of the end of each reporting period.



## Chapter 12 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

### 3 International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, deposits with the central bank, amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	At December 31,	
	2017	2016
Deposit with banks		
Asia Pacific excluding Mainland China	117,796	2,689
Europe	—	492
	117,796	3,181

### 4 Loans and advances overdue for more than 90 days by geographical segments

	At December 31,	
	2017	2016
Gansu Region	3,168,062	1,873,049
Mainland China excluding Gansu Region	156,553	1
Total	3,324,615	1,873,050

## Chapter 12 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

### 5 Gross amount of loans and advances overdue for more than 90 days

	At December 31,	
	2017	2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– Between three months and six months (inclusive)	584,606	536,131
– Between six months and one year (inclusive)	936,572	708,905
– Between one year and three years	1,356,042	593,585
– Over three years	447,395	34,429
<b>Total</b>	<b>3,324,615</b>	<b>1,873,050</b>

	At December 31,	
	2017	2016
As a percentage of gross loans and advances		
– Between three months and six months (inclusive)	0.45%	0.50%
– Between six months and one year (inclusive)	0.72%	0.66%
– Between one year and three years	1.04%	0.55%
– Over three years	0.34%	0.03%
<b>Total</b>	<b>2.55%</b>	<b>1.74%</b>

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

### 6 Mainland China non-bank risk exposure

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. At December 31, 2017 and 2016, substantial amounts of the Bank's exposures arose from business with mainland China entities or individuals.



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